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BEHAVIOURAL RESPONSES TO AUTOMATIC ENROLMENT IN WORKPLACE PENSION SCHEMES

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ABSTRACT

In October 2012, the United Kingdom adopted nation-wide automatic enrolment into workplace pension schemes. Automatic enrolment on the current scale is a major undertaking but it is also an untested policy and it is important that we understand how individuals are adapting to these radical changes in pension provision. There is currently a lack of research into the dynamic decision-making processes that lie behind some individuals' deviation from workplace pension scheme default settings.

This exploratory study investigates the importance of financial planning, social relations, and the role of the employer to default adherence and deviation. The embedded case study comprises qualitative interviews with 25 middle-income employees of a large UK utility company. Participants were selected on the basis of socio-economic similarity but had variable behavioural responses to the default settings of their workplace pension scheme.

The study uncovered different motives underpinning individuals' reaction to membership defaults, contribution defaults, and investment fund defaults. Continued membership following automatic enrolment was driven by social pressures. Subsequent to enrolment, individuals tried to achieve a balance between current expenditure and saving for retirement. Property ownership and mortgage debt redemption were prioritised over additional pension scheme investment. The life-stage of the individual influenced how they reacted to the contribution default settings - default adherence appeared to be linked to unsettled personal lives and career insecurity. Motives for increasing contributions were household formation, parental ageing, and relationship breakdown. Saving strategies were influenced by parental accumulation of retirement assets and parental financial literacy. Employer-matching contributions were implicated in participants' willingness to increase pension contributions beyond the minimum default; investment in share option schemes was offered as justification for limiting contributions to the maximum match. Employer endorsement effects, driven by trust in the employer's intentions, were strongly implicated in fund default adherence and in investment diversification strategies: participants pointed to the employer's promotion of the pension scheme and employer-provided financial seminars. Advice from older colleagues was also cited as influential in directing retirement savings behaviour.

The research concludes that the employment context is crucial to understanding how middle-income employees react to the default settings in their workplace pension scheme.

LAY SUMMARY

From October 2012, employers in the United Kingdom began automatic enrolment, which is the compulsory inclusion of their employees in workplace pension schemes. This thesis examined workers' reactions to this process; whether to remain enrolled; how they determined the amount that they would pay into the pension scheme; and their choice of investment fund. The study included face- to- face interviews with 25 middle-income employees of a large UK utility company. The interviewees were all aged between 30 and 40 years and all have some post-secondary school education

The research discovered that most of the employees copied the behaviour of their colleagues and accepted their enrolment in the pension scheme. Some of the older employees actively encouraged the younger employees to remain enrolled.

Workers were automatically enrolled at a contribution rate of 3%. It was discovered that those with unsettled personal lives or insecure jobs were more likely to continue saving at this amount. People who were getting married, having children, or whose parents were retired were keener to increase their contributions above the pre-set minimum. Many employees were encouraged to increase their contributions if their employer matched their payments.

However, it was also found that individuals tried to achieve a balance between spending now and saving for retirement. They were keener on buying a property or paying off their mortgage than on increasing payments into a pension scheme. When deciding whether to invest spare income in property or into pensions, many of the interviewees were influenced by their parents or older colleagues.

The pension scheme contributions were initially invested in a fund chosen by the employer. The majority of employees trusted that their employer had chosen correctly and did not make any changes to the investment strategy.

The research concluded that the employer's behaviour and the work environment were crucial to an understanding of how these individuals reacted to automatic enrolment and their workplace pension scheme.

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DECLARATION

I hereby declare that this thesis is my own work and that it has not been submitted for any other award.

Lynne Robertson-Rose

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1 Introduction to the Study

1.1 The research problem

The main objective of this PhD is to broaden our understanding of retirement savings behaviour in the UK within the context of automatic enrolment into workplace pension schemes. The research seeks to understand the dynamic decision-making processes that underlie individuals' assessment of the appropriateness of their retirement savings behaviour. The thesis examines the circumstances under which employees accept or deviate from the default settings of their workplace pension schemes. It also provides empirical evidence to add to the body of knowledge concerning individuals' initial enrolment into workplace pension schemes and their continued membership of these schemes, and it sheds light on why individuals opt out of automatic enrolment and why they increase contributions or alter their investment fund selection after enrolment.

Compulsory automatic enrolment into workplace pension schemes was first introduced in October 2012 in response to policy concerns about low retirement savings rates in the UK (Pensions Commission 2006). There was disquiet amongst policy makers over the potential increase in the number of individuals who would be almost entirely reliant upon the state pension in retirement, and a general apprehension about the long-term affordability of a system that guaranteed means-tested benefits to these pensioners. The main objective of the automatic enrolment legislation was to reduce future pensioner poverty by increasing the number of employees enrolled in workplace pension schemes and by obligating employers to contribute to these schemes. The current Government has recently turned its attention to the broader issue of pension adequacy, but it is not a policy priority and the Government sees its role as a facilitator by '*putting in place the right framework to enable people to make better choices*' rather than simply prescribe higher savings rates (DWP 2013 p.34). The onus is likely to remain upon the individual to ensure that their pension adequately meets their retirement needs.

In the three years following implementation of automatic enrolment membership of occupational pension schemes has more than doubled – arguably automatic enrolment has been successful in achieving the original aims of the legislation (DWP 2013). However, many individuals do not save for retirement simply to avoid poverty – many seek to obtain an earnings-related pension which will enable them to maintain a tolerable standard of living in retirement (Banks et al. 2005, DWP 2013). It is not clear that automatic enrolment, however successful it might be in increasing pension scheme membership, fully addresses the public's wish for earnings-related pensions. This thesis contends that many employees in defined contribution workplace pension schemes may, in fact, be put at a disadvantage because of automatic enrolment.

The challenge of building an adequate retirement income is greatest for moderate and higher earners (DWP 2013). Most individuals consider that they will require a pension of two-thirds of final salary to enable them to be comfortable in retirement (Banks et al. 2005) but it is estimated that, in future, the retirement income provided by the basic state pension¹ will be a mere 30% of median earnings². The relative importance of the state pension decreases as one moves up the salary scale and this has definite implications for the better-paid, who will need to make alternative provision if they wish to maintain their standard of living following retirement. Most of those in the median and above income bracket will need to save at least an additional 5% of gross salary to avoid income shock at retirement (DWP 2013). Since the implementation of automatic enrolment the majority of employees are now making some saving for retirement through their workplace pension scheme and the policy will eventually take millions out of means-tested benefits, but it cannot be assumed that redesigning the UK pension architecture to include automatic enrolment will lead to improved retirement outcomes for *all* employees. Nor is it certain that automatic enrolment will solve the problem of how to provide an earnings-related retirement income for those on median incomes or above.

¹ The Conservative/ Liberal Democratic Coalition Government made changes to state pensions with the 2014 Pensions Act which from 2016 will introduce a near universal state pension, known as the 1st Tier pension. This aims to provide a higher flat rate income of £151.20.40 per week for most pensioners (PPI 2015).

² For the tax year in which this study took place (2012-2013) median gross annual earnings for full-time adults was £27,000 (ONS 2013).

Members of this economic group face three challenges in building up an earning- related pension. Firstly, the state has gradually withdrawn from the provision of earnings-related pensions³. For the lowest earners this withdrawal is of little consequence because, at the same time, policies have been enacted to increase benefits for the poorest pensioners but, for those on median earnings and above, because of the meagre benefits provided by the state pension, lack of earnings-related pensions is problematic. The changes made to state pensions have largely benefitted the poorest sectors of society at the expense of those on median earnings and above (PPI 2015).

Further changes to workplace pension schemes – notably the shift from defined benefit (DB)⁴ to defined contribution schemes (DC)⁵ – have fallen disproportionately upon employees in the private sector. The link between pre and post-retirement income has been broken as private sector employers have retreated *en masse* from the provision of guaranteed defined benefit pensions (PPI 2015). The last fifteen years has seen a sharp decline in defined benefit pensions to the point where almost all workplace pension schemes in the private sector are now defined contribution based (ONS 2014). In addition, employers have arguably taken advantage of the move from DB to DC schemes to lower the contributions that they make to their workplace pension schemes, resulting in much lower projected pensions for employees (Bridgen & Meyer 2005). Unless those individuals make alternative provision, they will be faced with a substantial reduction in income at retirement.

The final problem is that automatic enrolment, as it is currently envisaged, contains elements that may counteract individual efforts to increase contributions. One important feature of automatic enrolment is that employees do not need to make any investment decisions at the point of enrolment - all qualifying pension schemes must have both a minimum default contribution rate and a default investment fund. The legislation included

³ See Appendix A for an explanation of this change.

⁴ Defined benefit pensions are retirement plans in which the employer promises a benefit upon retirement that is predetermined by a formula based upon the employee's earnings history, tenure of service and age.

⁵ Defined contribution pensions are retirement plans in which fund values are based on contributions and fund performance.

an employee default contribution level of 4% but this level was chosen only to avoid discouraging the low paid from saving for retirement (DWP 2013), a policy concern not generally applicable to those on median and above incomes, many of whom would have made provision for retirement even if automatic enrolment had not been introduced. For median earners, a contribution of 8%⁶ of salary throughout a working life is estimated to be commensurate with a pension of only 15% of median earnings (Pensions Commission 2006). There is a risk here that the current default setting in automatic enrolment is too low to meet income replacement needs in retirement for all but the lowest paid, but because automatic enrolment is endorsed by the government, middle-income employees may mistakenly assume that the default settings will provide the solution to their retirement savings issues.

Existing research evidence suggests that default settings have a strong influence upon retirement savings behaviour and many individuals remain contributors at the default contribution rate and remain invested in the default investment fund (Beshears et al. 2009, Madrian & Shea 2001). Proponents of automatic enrolment highlight the effectiveness of the ‘power of inertia’ in increasing participation in work-based retirement savings schemes and they argue that individuals have a cognitive bias for the status quo and that, once enrolled, they will not opt out unless incentivised to do so (Thaler & Sunstein 2008). That assertion raises a number of points of concern in relation to the problem faced by those individuals who wish to save more than the minimum default.

Although the Pensions Commission (2006) attached importance to the role that inertia plays in maintaining membership of a pension scheme after enrolment, there appears to have been little opportunity to examine the effects that inertia might have upon individuals’ choice of contribution rates – a point which is of some relevance. Attitudinal research conducted prior to the introduction of automatic enrolment in the UK indicated that almost half of auto-enrolled employees intended contributing more than the default contribution rate of 4% (Bourne et al. 2010). However, empirical evidence from existing auto-enrolment schemes indicates that these intentions are unlikely to translate into actual savings

⁶ The default contribution includes a 4% employee contribution, a 3% employer contribution and a 1% tax rebate.

behaviour, and that most participants start saving at the initial contribution default rate (Madrian & Shea 2001, NZIR 2015).

Deviation from the default investment fund is even less prevalent, although investment fund selection is important in a defined contribution context. It is important that individuals understand that, in order to maintain their standard of living in retirement, they may need to save more than the minimum default and that, because of the benefits of compound interest, it is advantageous to do so as early as possible. It is also important that they realise optimal outcomes may require an active response to the selection of market-linked investments.

We do not know whether most individuals understand that simply contributing at the current minimum contribution default is unlikely to provide an income that they will find adequate in retirement. Nor do we understand what the unintended consequences of setting a low default rate might be for median to high earners' retirement savings planning. Although status quo bias⁷ is the usual explanation for default adherence once contributions have been established, it does not adequately explain why individuals accept sub-optimum defaults in the first instance, particularly if they are given the opportunity to elect for a different contribution rate. Little is known about the effect that default levels have on how individuals view the adequacy of their pension saving, and the process by which the default settings are deemed significant, or are ignored at enrolment has not been satisfactorily explained. There is also little understanding of the forces that motivate employees to subsequently overcome inertia and deviate from the default settings post enrolment. This research project aims to fill that knowledge gap and provide insight into these important issues. It will achieve that objective by investigating how middle-income⁸ employees respond to automatic enrolment and to the default settings of their workplace pension scheme. The research will seek to explain the dynamic decision-making processes that underlie individuals' assessment of the appropriateness of their pension contributions.

⁷ Status quo bias is a cognitive bias in which individuals tend not to change established behaviour unless incentivized to do so.

⁸ This research investigates the behaviour of individual earning between £27,000 and £40,000 and in the thesis they are referred to as middle-income.

1.2 Outline of the thesis

This thesis addresses the following research question.

Under what circumstances do individuals adhere to or deviate from the default settings in occupational pension schemes?

Chapter 2 reviews the literature that is relevant to this investigation. The opening section of the review considers the research evidence on the relationship between income and retirement savings behaviour. It queries the assertion, inherent in much of the literature of a linear relationship between income and pension adequacy. The second section of the review appraises the strengths and limitations of the behavioural economics research for our understanding of retirement savings behaviour - concluding that, although the literature under consideration provides sufficient empirical evidence to assist this research project, the analytical paradigm of behavioural economics also places theoretical restraints upon the inferences that can be drawn from the data. The subsequent section examines the literature that has investigated individuals' abilities to both understand and utilise financial information. The review concludes that low financial literacy⁹ is not a sufficient explanation for low engagement with defaults and that financial education is not an adequate solution to the problem of achieving an adequate earnings-related pension. The review then reflects upon the usefulness of the socio-demographic variables of age and gender to explain retirement savings decision-making, prior to concluding that automatic enrolment may diminish the relevance of both these factors. The discussion leads into an investigation of the social influence of partners in retirement planning decision-making, suggesting that it would be beneficial to widen the investigatory net to include the influence of families, peers, and colleagues. Finally, the review discusses the potential role of the employment context in shaping retirement savings behaviour. Although there is little literature that specifically discusses the employment context, the evidence from the wider readings suggests that issues such as security of tenure and employer endorsement may influence employees' willingness to invest in a workplace pension scheme.

⁹ *Financial literacy* describes the numeracy skills and financial knowledge that individuals possess and that enables them to make effective financial decisions.

The remainder of the thesis is organised as follows: Chapter 3 provides a detailed discussion of the methodological approach adopted for this PhD research project. The presentation of this information is subdivided into three thematic areas headed Research Design, Conducting the Research, and Interviewing and Analysing the Data. The first of those explains why this research project was developed as an embedded case study and why it makes use of qualitative interviews. The next section describes the on-line survey which was used to gain access to potential research participants, making it clear that the questionnaire responses were also used to develop the questions that were posed in the qualitative interviews. Several pilot interviews were also undertaken prior to conducting the main data collection and, because the criteria for participant selection evolved following these pilot interviews, the chapter also explains why these procedural modifications were felt to be necessary. The third section details the iterative processes involved in the interviewing and the methods that were used to analyse the data. The chapter culminates with a short reflective section discussing some of issues encountered during the data collection.

The subsequent four chapters present and discuss the empirical findings from the qualitative interviews with twenty-five participants. Chapter 4 discusses how the participants approached financial planning and saving for retirement. The thesis argues that the main driver of pension scheme membership is the desire to behave according to accepted social norms: the findings in this chapter indicate that participants viewed it as both necessary and expected to save for retirement and, in many cases, wished to be seen to be doing so. The thesis also contends that because participants attached considerable importance to achieving a balance between retirement saving and other expenditure, current consumption was often prioritised over saving into the pension scheme. Finally, the chapter discusses the participants expressed preference for diversifying their savings into property and other long-term investments rather than concentrating their retirement savings exclusively on the workplace pension scheme. The thesis argues that many of the participants' diversification strategies were influenced by the availability and design of financial vehicles provided by the employer – in particular, by share saving schemes¹⁰. The contention is that because these schemes influenced the type of investments that were

¹⁰ See Appendix B for details of the employer-sponsored share saving scheme applicable to this case study.

considered as suitable long-term savings vehicles; they diverted contributions from the workplace pension scheme and thus impacted on default adherence. This current PhD research adds to that body of knowledge by demonstrating that the employer's influence is not limited to the pension scheme architecture but extends into other areas of employees' retirement savings behaviour.

Chapter 5 discusses some of the life events that researchers have previously linked to increases in retirement savings and this study largely confirms that marriage and having children are catalysts for increased saving. This chapter also addresses the role that relationships play in retirement savings decisions - the investigation detected some (albeit limited) evidence of joint decision-making between spouses. The chapter discusses the links between pension saving and the relationship status of the single participants and reveals that the findings produce some unanswered questions, particularly involving issues of gender. In contrast to previous research (Gough 2004, Ginn 2003), this study found high levels of pension saving amongst divorced women and the thesis suggests that this behaviour may be linked to attempts to gain financial autonomy following marriage breakdown. Finally, the chapter presents the analysis relating to parental influence. The participants themselves highlighted the important role that their parents had played in establishing their attitudes to retirement saving and the analysis also suggests that many participants were modelling their expected life course on their parents' experiences. Although parents played an important role in developing diversification strategies, parents actually had very little influence on default adherence or deviation. This seems to be largely due to the two generations having different experiences of occupational pensions; most of the parents having been members of defined benefit schemes.

The data and analysis in Chapter 6 is firmly embedded in the employment context. Relationships with work colleagues are examined and the chapter reveals that colleagues, particularly older colleagues, had a strong influence upon retirement savings behaviour and that in a few cases the older colleague guided younger colleagues to save for retirement. The conclusion that is drawn is that the age profile of the employees shaped the discourse around pensions and retirement. The thesis also argues that employment contracts and security of tenure shape retirement savings behaviour: the chapter provides evidence that

those individuals with broken career histories, or those on temporary contracts, were less likely to save for retirement. Finally, this chapter discusses the role that the employer itself played in the process of retirement saving. Chapter 6 draws attention to the fact that the pension scheme architecture did not develop in isolation - the level of the employer's matching contribution and their early adoption of automatic enrolment was a manifestation of the employer's commitment to retirement savings. The main thrust of the argument in this chapter is that the employer's approach to retirement savings altered the pension decision-making environment. The research shows that the employer endorsement effects suggested in the literature review were indeed present and that many participants trusted their employer to manage their pension investments on their behalf.

The final chapter draws together some of the findings introduced in these previous chapters and further discusses them in relation to the three distinct defaults found in the workplace pension scheme; the membership default, the contribution default, and finally, the investment fund default. As is appropriate for a PhD thesis that has its genesis in Social Policy, the chapter introduces some of the policy implications and recommendations that may be relevant in light of the findings that have arisen from this research. The final chapter also addresses the extent to which the three subsidiary research questions which arose from the literature review were answered and relates these findings to the existing literature. The conclusion that this thesis reaches is that our current understanding of behavioural responses to default settings has developed without sufficient scrutiny of the decision-making context. The research finds that the role of the employer is critical to the individual's response to default settings in their occupational pension scheme and it argues that we cannot fully understand whether automatic enrolment will facilitate pension adequacy in retirement if we do not take the employment context into consideration. It asserts that the organisational context should be included in the conceptual framework of research into automatic enrolment.¹¹

¹¹ There are several appendices attached to this thesis. Appendix A includes a short summary of UK post-war pension policy explaining the backdrop to state involvement in pension provision and the development of employer-sponsored pensions and automatic enrolment. The summary is included because it is important to provide the context in which automatic enrolment was introduced. Appendix B provides background to the case-study employer and details of the interviewees' working environment. Some of this information was gained from the researcher-generated

1.3 Additional thoughts

Automatic enrolment on a national scale is a major undertaking and the legislation affects the majority of the working population - it is important that we understand how individuals are adapting to its introduction because inadequate retirement savings have detrimental long-term consequences both for the individuals concerned and for society as a whole. It is particularly important that research into retirement savings behaviour is conducted at the present time because of the considerable changes to the pension environment in recent years. Following the implementation of automatic enrolment on a national scale, it is essential that we understand how the current generation of employees respond to the default settings in their workplace pension schemes.

This research project specifically investigates those employees on middle incomes because contributing at the default rate is unlikely to provide a pension that will satisfy their retirement aims. Facilitating the acquisition of pensions that maintain employees' standards of living in retirement is not the immediate policy priority of the Government but it will be a significant concern for these individuals when they come to retire. If initial savings rates are too low to produce an adequate income in retirement for these employees, we require research evidence that will enable policy makers to justify altering either the default setting or development of optimum policies that enable workers to actively increase contributions. This thesis maintains that it is important that automatic enrolment meets the needs of *all* of those who are enrolled and not just those individuals who might otherwise have made little provision for retirement.

questionnaire used to filter potential candidates for interview and some was gained from documentary sources and from conversations with employees. Appendix C is the key to the interview participants. This project also included a survey of all the employees at the case study employer, undertaken as an aid to interviewee selection. Appendix D includes the results of this survey with comments on the main findings. It is not essential to read the survey results but they may be helpful in situating the study in the wider context.

2 Literature Review

The aim of this chapter is to introduce the principal approaches adopted by researchers investigating the problem of inadequate saving for retirement. I will start by considering the substantive focus of retirement savings research, before discussing the limitations of the conceptual focus of the automatic enrolment research, and follow with an examination of the literature that has been most helpful in developing this current research project and from which have emerged three subsidiary research questions.

The opening section of this chapter considers the relevance of income and affordability to pension adequacy. Much of the existing UK pension research has focussed on issues of pensioner poverty and the low level of pension scheme participation in certain sectors of society. The conclusion that I draw from this literature is that the substantive focus has neglected the concerns of those individuals who are able to make some financial self-provision for retirement. This thesis aims to address that shortcoming.

The conceptual focus of the research into automatic enrolment and default behaviour has developed from the field of behavioural economics. This paradigm places emphasis upon individuals' cognitive biases as an explanation for retirement savings behaviour that, from a utility maximising perspective, may not seem rational. Critical reflection upon this paradigm leads me to conclude that, in order to understand exceptions to behaviour which cannot readily be explained by this theoretical framework we need to operate with other exploratory factors and utilise an alternative investigative lens.

Having concluded that we need to look beyond both income and cognitive biases to understand retirement savings behaviour, the third section of the chapter approaches the literature with a view to identifying gaps in the existing body of knowledge. One set of authors has sought to examine financial knowledge and skills (known as 'financial literacy') with the aim of improving individuals' financial capabilities. The chapter critically assesses the usefulness of the recommendations that have emerged from that approach and concludes that insufficient attention has been directed at the circumstances in which skills and knowledge are transposed into action. This section is followed by an examination of the literature that has sought to add context to decision-making, and this discussion makes

reference to gender, relationships, family influences, and the role of peers and work colleagues. Two subsidiary research questions evolved from this review of the literature.

Finally, having identified a failure in the literature to address the employer's role in retirement savings behaviour, the review discusses the organisational management research, which, although not directly associated with retirement savings research, might be helpful in interpreting behaviour. A third subsidiary research question develops in response.

2.1 Making assumptions about income, affordability, and retirement asset accumulation.

There is little UK-based research investigating the circumstances under which employees deviate from the default settings of their workplace pension schemes (an exception is Beshears et al. 2010). This scarcity of UK default research may be explained by the fact that, until recently, pensioner poverty, rather than pension adequacy, has been the main social policy preoccupation. The low level of state pension benefits and the lack of full entitlement to the BSP for many married women have been of considerable concern to researchers (Ginn 2003, Ginn & Arber 1991). The sustained decline in pension scheme membership¹² prior to the introduction of automatic enrolment also attracted extensive pension research interest - there has been research into pension enrolment decision-making (Foster 2012, Disney et al 2010, Clark et al. 2009, Thomas et al. 2009, Gough 2004) and into the reasons some individuals cease contributing after enrolment (Smith 2006). The shift from DB to DC pensions that has become prevalent in much of the private sector has also attracted research attention (Rowlingson 2002, Meyer & Bridgen 2008). However, because much of this existing UK pension research has focussed on issues of pensioner poverty and the low pension scheme participation amongst those on low incomes the exploration of post-enrolment contribution increases have usually been regarded a subsidiary issue.

Income is judged to be an important determinant of participation and contributions primarily because researchers have noted that, in the UK, those on the lowest incomes are least likely to be members of an occupational pension scheme (DWP 2015a, Banks et al

¹² Membership fell from a peak of 12.2 million in 1967 to a low of 7.8 million in 2012 (ONS 2014 p.3).

2005). This association between higher income and increased membership has been linked to affordability - the increased likelihood of fewer income constraints as one moves up the remuneration scale (Huberman et al 2007 p.20). In the UK, affordability is the explanation offered most frequently by those choosing not to join an employer's pension scheme (Bourne et al. 2010 p.82, Thomas et al 2009). Sustained contribution into private pensions also appears to be a function of affordability (Smith 2006). Investigation into pension persistency found that many policy cancellations reflect affordability issues: cancellations are highest following changes in personal circumstances, such as deteriorating health or marriage breakdown (Smith 2006).

But the assumption that income constraints are the main cause of lower pension scheme membership is not uncontested. Smith noted that deterioration in financial circumstances was only present in half of the cases of policy cancellation she examined and this finding does seem to question the existence of a strong link. In the UK, pension scheme membership can, to some extent, be explained by the lack of employer-sponsored pension provision for the low paid (Foster 2012). Evidence from the UK public sector, where pension scheme membership amongst low-paid workers is significantly higher than in the private sector, suggests that the association between income and pension participation is not as linear as is sometimes portrayed in the literature. Indeed, Bourne et al. (2009 p.3) found that, amongst those who did not receive employers' pension contributions, the highest levels of support for automatic enrolment was found amongst those on below average earnings. This group saw a twenty nine percentage point increase in participation rates between 2012 and 2014 (DWP 2015a p.12). This evidence of the effectiveness of automatic enrolment provides support for those researcher who argue that ease of expenditure control is of more significance than affordability *per se* (Clery et al 2010; Rabinovich & Webley 2007).

Although having a higher income may go some way to facilitate saving for retirement, increased remuneration does not necessarily eliminate affordability issues. Skewed incentives from means-tested working tax credits¹³ and housing benefits at the lower end of the income scale, and tax relief at the higher end of the distribution, mean that the impact

¹³ A state benefit in the UK paid to individuals who work and have a low income.

on take-home pay of pension scheme contributions is not evenly spread across the entire income distribution. Moreover, as Strauss (2008) points out, because of the geographic variation in incomes and living costs in the UK, income is an inadequate proxy for affordability. If we look at the issue of retirement savings more broadly, the research does indicate that issues of affordability are relevant across *all* income scales (Clery 2010) - but the emphasis of the existing pension research on those groups most at risk of poverty during their working lives has meant that limited attention has been paid to the problem of saving for retirement by those higher up the income scale. For example, in 2009, the DWP commissioned research into individuals who were eligible for automatic enrolment and respondents were specifically questioned on their attitudes to the forthcoming pension reforms (Bourne et al. 2009)¹⁴ All those earning £33,000 and above were placed in the same analytical grouping and one infers from this that the researchers believed that differentiating between those earning one and a half times median earnings and those on higher multiples was of little relevance.

It is also suggested that savings rates rise with remuneration - in other words, that higher earners save more both absolutely and relative to their income (Huberman et al 2007). However, Huberman et al's research, which was conducted in the United States, suggests that although such an outcome is true for those on the very highest incomes, amongst those on just medium-to-high incomes, higher relative savings rates are not always typical. Clery et al. (2010) found that, although higher earners¹⁵ contribute more in absolute terms than other income groups; those contributions represented a lower percentage of both salary and household income. There is no clear explanation for the relatively lower pension savings rates identified by Clery et al. and it is not known whether this is a consequence of savings diversification or an indication of under-saving for retirement (although the answer to that question is of some relevance).

Failure to replace a pension saving shortfall implies greater risk of income shock in retirement for any individual and reinforces the argument that attention needs to be paid to

¹⁴ A face-to-face survey of 1406 individuals who were eligible for auto-enrolment and who had previously taken part in the Family Resources Survey 2008/09.

¹⁵ Clery classifies higher earners as those earning more than £26,000 pa.

behavioural responses to default settings. On the other hand, acquisition of retirement assets through alternative avenues - for example, equity investments, property ownership, or asset injections from inheritance - would suggest that, in the longer term, relatively lower pension scheme contributions may be of little relevance. One also needs to consider the relationship between age and propensity to invest income into retirement savings plans. As they age, individuals show increased willingness to save for retirement, it is therefore possible that, given time, some will manage to increase their retirement savings rate, although it should not be assumed that all employees will be able to recover from early inadequate savings rates. The earnings profile for many middle-income employees in the private sector shows significant salary growth early in their careers but salary stagnation, or even decline, in late middle age (Disney et al. 2010). Many individuals may have limited financial ability to augment retirement savings in later life to compensate for under-saving earlier in the life course.

Our endeavour to understand why some individuals achieve pension adequacy whilst others end with sub-optimal retirement income is further complicated by individual variations in income and pension entitlement over the life course. Building up assets for retirement is not a discrete event but a cumulative process developed over decades, and individual and societal changes during this period will inevitably add considerable complexity to the issue. In addition, DC pensions are vulnerable to financial market collapses and it cannot be assumed that, for example, an individual aged in their thirties who is on track to achieve pension adequacy will be in a similar position twenty years later. Individual incomes are not easily translated into wealth and an adequate income during one's working life is no guaranteed of an adequate retirement pension.

2.1.1 Gradations of attitude and behaviour across the income spectrum

Although the literature rarely differentiates between gradations of attitude and behavioural responses amongst those on above-average earnings, it does identify differences between low and high earners. Looking specifically at attitudes towards pension saving, higher earners are more likely than lower earners to be in favour of self-provision for retirement and are more likely to favour government assuming a proactive role in encouraging saving (Clery et al. 2010 p.125). The Clery et al study includes four income bands, (the second top

quartile being £26,000 to £43,999, which is similar to the distribution of income referred to in this thesis as 'middle income'). Analysis identified differences in attitude to retirement savings behaviour between individuals in the first and second quartiles. In Bourne et al's (2009) study employees on median incomes and higher were more likely to say that they would opt out of auto-enrolment - although it is pertinent to point out that the research related to attitudes prior to auto-enrolment, rather than to actual behaviour. The actual evidence for opt out behaviour by those higher up the income scale suggests a nuanced relationship between income and reactivity to default settings. The data so far available from automatic enrolment in the UK indicates that opting out of membership is comparatively rare (DWP 2015a).

Those on higher earnings were also more likely than lower earners to indicate that they would increase their contributions following automatic enrolment (Bourne et al 2010). Researchers investigating default adherence in the US have found that those higher up the income scale are, indeed, more likely to deviate from the default settings (Beshears et al 2009, 2010). In most of the automatic enrolment studies undertaken thus far, default contribution settings have been around 3% and default deviation usually involves an increase in contributions, but one cannot make the assumption that default deviation is prompted by a desire to save more into a workplace pension scheme. Beshears et al (2010) conducted a rare investigation into default behaviour into a UK pension scheme which had a 12% default setting. This study found that higher earners were more likely than lower earners to *reduce* their contribution rate, suggesting that active responses to defaults are not always driven by a willingness to increase contributions. The authors suggest that default deviation is a response to 'sub-optimal defaults.' and conclude that higher earners face lower barriers to active decision-making.

In that study, Beshears et al (2010) also identified a positive relationship between income and deviation from investment fund defaults, replicating findings in an earlier study (Beshears et al 2009). Wealth and high income have also been found to be positively correlated with willingness to take investment risk (Dulebohn 2002). Attitudes to risk are relevant to investment in market-linked DC schemes, where outcomes are influenced not only by contribution rates but also by fund selection and performance. Under automatic

enrolment, employees do not need to make any investment decisions at the point of enrolment but their ability to assess whether or not the default investment fund is suitable for their needs is of some consequence. Increased willingness to take investment risk may explain why higher incomes are associated with propensity to deviate from the (usually low-risk) default investment fund. Although risk has received attention in UK-specific pension research, the focus has been upon the uneven consequences of risk displacement from employer to employee following the decline of DB schemes. As yet, we have little understanding in a UK context of individual responses to the default fund settings of their workplace pension schemes

In conclusion, the substantive focus of most of the UK pension research to date has been to identify those most at risk of income poverty in retirement and to seek solutions to the problem of low retirement savings participation. But there is some inconsistency in the operationalisation of income in the literature - although it is clear that there is a relative difference between lower and higher remuneration, 'low' and 'high' are not always conceptualised in the same way. Nor has it always been recognised that under-saving for retirement can be a problem across the entire income spectrum. A deeper examination of the literature that relates to attitudinal and behavioural responses to automatic enrolment suggests that the positive relationship between earnings and proactive retirement savings behaviour is not as unambiguous as might be supposed. Lower incomes do not prevent all individuals saving for retirement, nor do higher incomes guarantee optimal saving for retirement. Although it may be useful to use income to develop the parameters around which one investigates default adherence and deviation, lack of earned income is not the sole cause of pension inadequacy in retirement. The review of the literature suggests that there are gaps in our knowledge of retirement savings behaviour at different income levels and that in particular, there has been inadequate attention paid to the gradation of attitudes and behaviour amongst those individuals who can be identified as neither 'poor' nor 'rich'.

We live in a complex environment which, in recent decades, has seen rapid increases in longevity, technological change, evolving working environments, and uncertain market conditions. Although having a higher income may go some way toward facilitating saving

for retirement, this thesis contends that increased remuneration is not, by itself a sufficient precondition for ensuring pension adequacy. Looking at the relationship between income and pension scheme participation in isolation does not enable us explain the motivations underpinning the dynamic decision-making processes involved in saving for retirement and, therefore, we need to integrate other perspectives into the investigation.

2.2 The conceptual focus of pre-existing automatic enrolment research

Automatic enrolment and default adherence feature predominantly in the expanding behavioural economics literature. The field of behaviour economics emerged from attempts to explain consistent violations of ‘rational’ economic behaviour by employing insights from psychology (Kahneman et al 1982). Much of the pension research by behaviour economists focuses on cognitive biases. The inclusion of psychological biases and cognitive limitations in economic theory has enabled researchers to challenge the primacy of rationality in economics and explain pension savings behaviour that, from a ‘rational’ perspective is not utility-maximising. The underlying assumption in this literature is that inertia and myopia are the main causes of under-saving for retirement and that automatic enrolment is effective because it utilises the strength of the status-quo bias as a counter to myopia (Thaler & Sunstein 2008). The early research into automatic enrolment concentrated on seeking confirming evidence of its effectiveness and was orientated towards promotion - for instance, by suggesting the advantages of auto-enrolment as a means of increasing retirement savings rates (Thaler & Sunstein 2008). Notwithstanding the widespread adoption of automatic enrolment in the United States and the research evidence that points to its success in increasing pension scheme membership, there is still a lack of attention paid to explaining individuals’ proactive responses to defaults after enrolment.

The seminal behavioural economics research study into default adherence, was conducted by Madrian & Shea (2001), and analysed the savings behaviour of US employees before and after auto-enrolment into a 401(k)¹⁶ company pension scheme. The authors found that auto-enrolment resulted in statistically-significant numbers of the participants adhering to the default contribution level even though, in the absence of auto-enrolment, they may

¹⁶ Defined contribution retirement savings accounts

have opted for a different level. These findings have since been substantiated by similar studies (Beshears et al 2009). It is claimed that, although the individual may know that the default is not optimal and may intend altering it, they procrastinate in doing so because of the complexity of calculating an optimal rate (Beshears et al 2009) - increased complexity in the decision-making process has been demonstrated to lead to increased inertia (Akerlof & Shiller 2009) and therefore to increased default adherence (O'Donoghue & Rabin 1999). A bias for the status quo may then explain why individuals do not alter their investment and contribution defaults after enrolment. The behavioural economics literature also suggests that an employer's matching contribution has an influence upon contribution decision-making (Beshears et al 2007). Beshears et al. demonstrated that prior to the introduction of an employer match, contribution rates were most frequently chosen in multiples of five but that following the introduction of a 4% employer match, there was a large increase in the number of employees contributing at 4%. It is posited that a cognitive bias known as anchoring¹⁷ could be partly responsible for individuals choosing to enrol at the defaults. But, although anchoring effects have been conclusively demonstrated in a laboratory setting, their relevance in real-world financial decision-making has been questioned (see Furnham & Boo 2011 for a review of the literature), mainly this is because anchoring effects cannot comprehensively explain why defaults influence some individuals but not others. Nor are anchoring effects helpful in explaining investment fund default adherence: deviation from the default asset allocation is even less prevalent than contribution default deviation (Beshears et al 2009).

The impact of employer's matching contributions on retirement savings behaviour is relevant to this current study because the effects are not uniform across income bands. An investigation of over 500 DC schemes in the United States that offered an employer's match found that, at low-income levels, the match increased scheme participation but that, at higher income levels it had a negative effect on contributions (Huberman et al 2007). *'Participants' tendency to contribute at the upper limit on employer's match may be*

¹⁷ The tendency to use the first piece of information offered as a reference for evaluating or estimating an unknown value.

responsible for this counterintuitive finding' (Huberman et al 2007 p.25). One reading of this behaviour is that the match is interpreted as an optimal contribution rate (Madrian & Shea 2001, Beshears et al 2009). Huberman et al's study reveals that individuals with an income of at least \$40,000 who received a match contributed less than those who did not. This matching anomaly may explain Clery's (2010) finding that those on higher incomes saved relatively less into their workplace pension scheme. Under the automatic enrolment provisions in the UK, an employee contributing at the default will receive a matching contribution of 4% of salary, made up of a 3% employer's contribution and a 1% tax rebate. Thus, those wishing to increase their savings rates have not only the influence of the status quo bias to overcome but the implicit endorsement effect of the match. Huberman et al conclude that those *'who use the upper limit on the match as their focal point to choose their contribution level will contribute less than those who do not receive a match at all'*, (Huberman et al 2007 p.26). The impact of employers' matches and default settings varies according to circumstances - an investigation by Beshears et al (2010 p.1) into the limitations of defaults found that *'defaults become less powerful as they become extreme'*. Willingness to deviate from a 12% default rate, for instance, was greater than it was for lower defaults and was more marked amongst those on higher earnings. The authors argue that the match threshold serves as a starting point in the selection of a contribution rate and conclude that higher earners face lower barriers to active decision-making. Although they do not pursue the point further in that particular study, they suggest that *'procrastination or lack of relevant knowledge'* may have a role to play in default adherence (Beshears et al 2010). A previous paper by the same authors also notes that there may be other factors influencing default behaviour and suggests a link between the socio-economic similarity of a workforce and the degree to which its members adhered to defaults (Beshears et al 2009). Responsiveness to the match may also be linked to educational levels (Engelhardt & Kumar 2007).

The behavioural economics research has much to contribute to our understanding of responses to the default settings in occupational pension schemes. The empirical evidence suggests pension scheme architecture shapes behaviour - specifically the default settings and the level of the employer's match influence employee contribution rates, although those working within the research paradigm have a tendency to presume that cognitive

biases are the principal explanation for behaviour. In addition, one shortcoming of the quantitative methods favoured by behavioural economists is that the instrument variables may, in fact, be correlated with unobservable influences. For example, the variable *match generosity* may be linked to employer benevolence and promotion of pension saving. There has been little examination in the existing behavioural economics research of the context of the pension scheme architecture and whether, for example, changes in scheme parameters were accompanied by changes in the way that the employer promoted retirement savings. However, the literature does contribute to our understanding that employees may see the default as a starting point from which to make complex investment decisions. Although the early research into default responses can be criticised for describing economic phenomena rather than explaining it (Crusius et al 2012) and for under-acknowledging context (Strauss 2008), as the research field has developed, these shortcomings are beginning to be remedied.

The seminal papers on automatic enrolment and default adherence provide an empirical foundation for our understanding of how (many) individuals react to default settings and they have highlighted the influence of the default architecture upon behaviour. However, it should be noted that the behavioural economics approach is of limited additional use to this PhD research project because it has not attempted to investigate behaviour that has deviated from that predicted by the underlying theoretical premise - which is that behaviour can be explained by cognitive bias. The objective of the behavioural economics research has been to understand why individuals adhere to the defaults rather than to question why they do not. The main disadvantage in applying behavioural economics research is that the analytical paradigm places theoretical restraints upon the conclusions that can be drawn from the empirical research. Behavioural economists characterise individuals as irrational if their behaviour '*deviates from the idealised norm*' (Strauss 2008 p.8) So, for example, whilst saving for retirement is viewed as rational behaviour, little attention is paid to individual motives for saving, and the theory places emphasis on explaining behaviour with reference to barriers to rational decision-making, such as cognitive bias or information failure.

This thesis takes the view that an individual's interpretation of their situation is critical to an understanding of how they then respond to the default settings. This theoretical approach, with an emphasis on subjective construal, moves beyond behavioural economists' description of behaviours as decontextualized phenomena and seeks to understand why some responses to defaults settings do not conform to either the economic models suggested by the economists or the cognitive biases suggested by the behavioural economists. In order to understand exceptions to behaviour which cannot readily be explained by these theoretical frameworks we need to operate with other exploratory factors and utilise an alternative investigative lens.

2.3 Is poor financial literacy an explanation for inadequate retirement saving?

Traditional economists' explanations for inadequate retirement savings have suggested that a lack of information impedes pension decision-making (Lusardi 2008). Retirement saving is interpreted as a rational consequence of variation in lifetime income: earnings capacity is initially low, builds to a peak in adulthood, and then falls after retirement. It is proposed that, in order to facilitate lifetime utility maximisation, rational individuals will incur liabilities in youth, save in mid-age, and then consume savings during retirement (Ando & Modigliani 1963). Thus, saving is both a mechanism to ensure income smoothing and a consequence of rational attempts to keep day-to-day utility proportional to total lifetime utility (Friedman 1953). Economists place considerable emphasis on the importance of knowledge in rational decision-making and, viewed from this perspective, sub-optimal savings behaviour can be remedied by increasing information for savers. Consequently, availability of financial information and the development of financial skills and knowledge (generally referred to as financial literacy) receive considerable attention in the research literature (Lusardi, et al 2011, Lusardi 2008, Banks & Oldfield 2007, Atkinson et al 2010).

Using the 2002 wave of the 'English Longitudinal Study of Ageing', Banks and Oldfield (2007) investigated the link between numeracy skills and retirement planning. Financial literacy does seem to be positively correlated with; higher income, higher education, with being older, and being male - factors which are all associated with the accumulation of retirement assets. Non-UK quantitative researchers have also pointed to the correlation between

financial literacy and more general retirement asset accumulation (Van Rooij et al 2011; Lusardi & Mitchell 2009; Lusardi & Tufano 2009). It is argued that financial skills are key to active investment decision-making, default fund choice and risk perception (Engstrom & Westerberg 2003). Evidence from the market-linked element of the Swedish national pension scheme (APA) also highlights the importance of both education and financial literacy in default adherence decision-making (Engstrom & Westerberg 2003). Participants in the APA are not permitted to opt out from contributing but *are* able to deselect the default investment funds. Engstrom & Westerberg confirmed that the attainment of, for instance, higher education and financial wealth increases the probability of an individual opting-out of the default fund. Their conclusion is that financial educational is a more important characteristic than demographic factors such as age and gender. Evidence from the United States also points to the significance of certain educational characteristics in overcoming contribution, and fund choice defaults; default adherence is more prevalent amongst the less well-educated, perhaps reflecting a relative lack of financial skill (Madrian & Shea 2001, Beshears et al 2010). (However, it should be cautioned that the US literature relates to employer-specific 401(k) schemes, rather than national schemes, and may be therefore investigating populations that differ from the wider national population.)

The probability of an individual opting-out of a default investment fund is positively linked to the presence of existing private pensions and one hypothesis is that familiarity with financial markets encourages active financial decision-making and default deviation (Engstrom & Westerberg 2003). Lusardi (2008) maintains that financial literacy precedes stock market participation, although Banks and Oldfield (2007) caution that the direction of causality in the relationship between knowledge and assets is not clear and that our interpretation of the relationship has to remain open – ownership of financial assets does not necessarily lead to financial acumen, or vice versa.

Evidence of low financial literacy levels is used to promote the acquisition of financial skills. The OECD actively encourages financial literacy research (Atkinson & Messy 2012), and the dissemination of financial information, and the belief that financial education can solve the problem of inadequate savings rates and inappropriate financial decision-making was enshrined in the UK's Financial Services Authority's *National Strategy for Financial Capability*

2006 (Williams 2007). Some commentators advocate improving financial literacy so that individuals have the capacity for independent decision-making. Research in this area points to a positive but limited effect (Lusardi 2008, Bernheim & Garrett 2003): the provision of employer-sponsored education schemes appears to have a positive impact on participation in workplace pension schemes and on contribution rates (Bernheim & Garrett 2003). Attendance at financial education seminars has also been found to lead to statistically significant, albeit small, increases in pension portfolio diversification (Bayer et al. 1996), and improved risk management (Dolvin & Templeton 2006). But, although financial education has been demonstrated as being effective for the least wealthy and lower-educated groups, it has not been found effective for those in other socio-economic categories (Lusardi & Mitchel 2009).

One infers from much of the literature that improving financial literacy is the solution to the problem of achieving pension adequacy in retirement, and, whilst one can conclude from the numerous references to financial literacy that skills in this area are associated with proactive retirement savings behaviour, a number of questions remain unanswered. It is not clear whether those individuals who are more proactive with pension scheme default settings are also more inclined to acquire financial skills: improved financial literacy may be a consequence of willingness to deviate from the default status quo rather than a prerequisite for doing so.

In addition, given the wide variation in cognitive ability in the general populace, and the complexity of retirement savings detail, there has to be some doubt as to whether most individuals can acquire the levels of financial literacy required to enable optimum retirement saving decisions-making. Apart from the question of whether it is feasible in practice to improve the education of the individual, it is questionable whether it is a desirable policy objective. One does not usually expect social policy to be designed so that favourable outcomes are dependent upon the cognitive abilities of the individuals involved. Arguably pension systems should be designed so that individuals can achieve an adequate pension based upon their willing to save for retirement – and not upon their in-depth financial knowledge. This thesis maintains that, rather than assuming financial education to be a

panacea, more attention should be directed at understanding individuals' utilisation of the skills they already possess.

2.3.1 Financial planning is the key

Although Lusardi argues that financial literacy is powerful predictor of wealth accumulation, her research suggests that, in fact, it is planning that is the key to pro-active retirement savings behaviour. Lusardi et al (2009) made use of a researcher-designed financial planning tool to target the perceived barriers to enrolment and contribution increases and found that the provision of this employer-based planning significantly increased pension enrolment. This would imply that financial planning advice and, possibly, the context in which it is delivered, are important. Given the cognitive and resource costs to individuals of retirement planning, Clark et al (2009) argue that salience may also be crucial and they point to individualised advice from pension specialists as important for contributing to a sense of planning. Insight into the importance of personalised planning may come from a review of German Riester pensions,¹⁸ in which the authors link the provision of financial advice to pension take-up, with those participants having made decisions unaided demonstrating lower participation (Borsch-Supan et al 2008). However, change in perception does not automatically lead to increased saving – there appears to be a need for a low-effort mechanism, such as automatic enrolment, to convert intentions into changed behavior (Choi et al 2001).

In light of low baseline literacy levels some of the literature recognises that, rather than acquiring skills themselves many individuals would benefit from financial planning advice. But the focus in the UK research is upon recommending initiatives targeted at those '*with low to middle incomes*' (Atkinson et al. 2010 p.37) and there is a presumption that those on higher incomes will be willing to purchase independent financial advice themselves (DWP 2013). This thesis contends that restricting financial planning advice to the poorest sectors of society is an inadequate and inappropriate response to the problems of helping *all* citizens to achieve an adequate pension. In light of the evidence that most individuals do not

¹⁸ Voluntary state subsidised pensions

consult an IFA¹⁹, it is highly likely that the majority of individuals will be automatically enrolled without receiving professional financial advice.

The conclusion that can be drawn from the research into financial literacy is that some of the authors do not sufficiently distinguish between financial knowledge and financial planning. Low financial literacy is not, by itself, a sufficient explanation for low engagement with pension scheme defaults and, therefore, financial education is not the solution to the problem of sub-optimal retirement saving. There is a complex interrelationship between financial literacy and the context in which the decision-making takes place (Clark et al 2009). Arguably individuals' perceptions of outcomes, and their experience in utilising or exploiting their financial skills, are of greater relevance than measurable financial literacy. The contexts in which financial skills are developed, and the sources of pension advice available, appear to be critical in assisting individuals to engage with pension scheme defaults. Financial planning seems to be the key to explaining default deviation (Lusardi et al 2009, Borsch-Supan et al 2008), but because of the observation that there is a strong positive association between financial literacy, income, and retirement asset accumulation, insufficient attention has been paid to the circumstances in which individuals develop their financial plans. In light of this shortcoming in the investigative reach of the existing literature, this research project will seek to provide insight by posing the following subsidiary research question:

Question: How important is financial planning to default adherence or deviation?

2.4 Seeking answers in an automatic enrolment environment

2.4.1 The diminishing relevance of age and gender

Much of the literature so far discussed draws upon socio-economic and demographic variables in evaluating variations in retirement savings decision-making and behaviour. In addition to income, and education (which is sometimes used as a proxy for financial literacy), researchers highlight the relevance of the demographic variables, including age and gender and relationship status (Clery et al 2010, Lusardi 2008, Huberman et al 2007).

¹⁹ Independent financial advisor

Connections are made between these variables, both individually and in combination, to explain proactive savings behaviour. In particular, the data regarding voluntary contributions into pension plans shows membership and contributions increasing with age (ONS 2014). Looking specifically at defaults, several studies into automatic enrolment schemes in the United States have found that older individuals are more likely to deviate from the default settings (Madrian & Shea 2001, Beshears et al 2009), although these studies have been of individual firms offering automatic enrolment, leaving some room for doubt about the relevance of age to default deviation when considering national populations (Engstrom & Westerberg 2003). Most of the existing UK research has been conducted during a period of voluntarism in occupational pension implementation but the National Pensions Act (2008) has now introduced quasi-obligatory scheme membership for employees over the age of 22, one consequence of which has been a downward shift in the mean age of first time enrolment into workplace pension schemes (ONS Digital 2015 p.2). As a result, chronological age appears to be of diminishing relevance in pension decision-making.²⁰

The introduction of nationwide automatic enrolment may also reduce the relevance of gender to pension adequacy. Women are, on average less likely than men to be members of occupational pension schemes (ONS 2014) and this observation receives considerable attention in the UK pension research (Ginn & Arber 1991, Ginn 2003, Gough 2004). Smith's (2006) analysis of the British Household Panel Survey (BHPS) found that pension contribution persistence is also lower for women. One explanation for the gender divide in the UK is that *'women are more likely to be in part-time temporary and poorly paid employment where occupational pensions are less likely to be available'* (Foster 2012 p.5). Another explanation is the negative impact on earnings of career breaks compelled by caring responsibilities (Ginn 2003). However, one needs to be cautious about cohort effects when drawing conclusions about gender differences in retirement savings behaviour. Analysis of female pension participation and contribution behaviour is clouded by the uneven gender distribution of income and the impact of childbearing on labour market participation. Price and Ginn (2003) make the point that inroads into educational and gender equality in many

²⁰ This project does make use of age as a selection criterion, and the reasons behind this are discussed in Chapter 3.6.1.

occupations mean that, although still gendered, women's experiences are now widely diverse. It remains to be seen whether the compulsory enrolment of low-paid employees into workplace pension schemes and the obligation placed upon employers to make contributions on their employees' behalf will alter the gender balance of membership. More recently, Clery et al (2010) argued that, gender is now no longer a significant factor and that the variation in pension participation can be explained by other socio-economic variables (Clery et al. 2010). Similar conclusions have been drawn about the relative unimportance of gender on pension participation in Sweden (Engstrom & Westerberg 2003). The Swedish data suggests that in an environment where employees have equal access to pension schemes and membership is ubiquitous, gender is of less relevance than other factors.

Several US studies have demonstrated gendered differences in attitudes to pension investment risk and identified more conservative investment strategies amongst female pension savers - women appear to display greater risk aversion with market-linked investments (Clark et al 2009, Papke 2004, Bernasek & Shwiff 2001, Bajelsmit et al 1999). Low income has been found to magnify the gender effect so low-income women are highly risk adverse (Clark & Strauss 2008). Education levels *per se* do not lower the risk profile of women but financial education does so (Hibbert et al 2013). A possible explanation for this may come from findings that gender differences *'in apparent risk taking are associated with differences in the perception of the activities' benefits and risk, rather than with differences in attitude towards perceived risk'* (Weber et al 2002 p.263). In other words, if women are made aware of the benefits of investing in financial markets they are less likely to be risk averse.

2.4.2 The interplay of gender and marital status

Several researchers posit that it is the interplay between gender and marital status that is a significant factor (Huberman et al 2007, Gerrans & Clark-Murphey 2004, Sundén & Surette 1998). This research suggests that the association between relationship status and retirement savings decisions may help explain reactions to defaults. One US study of cross-sectional panel data of married individuals identified spousal support for saving as a relevant factor in *perceptions* of pension adequacy, although the same study failed to identify its significance in The Netherlands (Hershey et al 2007). The authors' explanation for these

findings lay in the structural differences between the two pension systems. Another US study using data from the 1989 Survey of Consumer Finances concluded that, when an individual or spouse has access to a defined benefit scheme, male partners typically increase their contributions to DC schemes but female partners are more likely to reduce their DC contributions (Bajtelsmit et al 1999). Analysis of the Swedish Premier Pension scheme also confirmed a link between pension contributions and marital status but revealed that savings levels were positively correlated with spouses' pension contributions (Johannisson 2008). Attitudes to investment risk have also been found to be influenced by marital status and the existence of spousal pension entitlement (Clark & Strauss). Some researchers have reported that the joint decisions of couples are less risk-averse than individual decisions (Palma et al 2007, Sundén & Surette 1998) although other researchers report the opposite (Bateman & Munro 2005). It is also believed that future orientation of couples converges over time and thus, in older couples, one is likely to see reinforcement of pension decisions (Sweeney & Cancian, 2004).

The narrowing of the earnings differential between working women and their spouses may explain the similarity in retirement savings behaviour identified in recent research. There is a congruence in the socio-economic status of married women and their spouses - higher-earning women with pension entitlements are more likely to be married to similarly-situated men - a process known as assortative mating (Sweeney & Cancian 2004), although the opposite does not generally hold true (Clark & Strauss 2008). In this context, one question that has remained unanswered is: who is driving retirement savings behaviour? Are couples engaging in joint decision making or, for example, is it the highest earner who makes the most proactive pension decisions? The answer to that question certainly influences what inferences we can draw about causation and what recourse we should make to relationship theory when explaining default behaviour. Further, there is a tendency for pension researchers to concentrate on the experiences of older adults, so, in relationship studies the subject of younger couples' influence upon one another's pension arrangements has received scant attention. It has been observed that pensions are seen by younger couples as individually owned - it is hypothesised that this is due to the relatively recent establishment of the relationship (Joseph & Rowlingson 2012) but it could equally reflect societal changes in the permanence of relationships.

The literature thus far reviewed suggests that relationships have some influence on retirement savings behaviour, but Joseph and Rowlingson's observation cautions that there is not a simple dichotomy between married and single individuals. At this stage, one can tentatively conclude that there is merit in adding another subsidiary research question on the theme of relationships to the study, but it may be beneficial to cast the investigatory net wider before finalising the exact wording of that question.

2.4.3 The influence of families, friends and peers

Inter-partner social learning may be an explanation for higher savings rates amongst married couples - the literature points to a positive association between financial education provided by the employer and spouses' pension plan activity (Bernheim and Garret 2003), suggesting that married employees may be benefitting from social learning effects. The shift from DB to DC pensions has added to the complexity of retirement savings decisions but, since most individuals do not access professional financial advice, one must assume that individuals are turning to family, peers, and colleagues for informational and social cues. Those in relationships may also be benefitting from combined, and hence larger, social networks with greater access to informal pension expertise. With the exception of the investigations into spousal influence there is little published research into whether personal connections such as parents and friends are relevant to default adherence behaviour in auto-enrolled pension plans.

Parental encouragement has been demonstrated to predict higher total saving by young adults (Ashby et al 2011) and Gouscova et al. (2010) conclude that there is a positive association between father and child pension participation decisions that cannot fully be explained. The theoretical explanations for similarities in intergeneration asset accumulation stress different dimensions of socio-economic advantage, including; intergenerational earnings mobility, occupational mobility, class and status (see Torche 2015 for a review of the literature) but offer no clues as to whether parents influence reactions to defaults.

Other researchers have noted a link between the use of social networks for advice and increased saving participation (Lunt and Livingstone 1991). Although there is extensive psychology research on social influence in general (Forgas & Williams 2002), the influence of

peers on retirement savings behaviour has received only scant attention (Beshears et al 2015). However, several studies have looked at the role of peers in other financial domains and social learning from peers has been shown to be relevant to welfare program participation (Bertrand et al 2000), stock market participation (Hong et al 2004), and attitudes to risk (Ahern et al 2014). Lunt and Livingston (1991 p.116) in referring to the work of Duesenberry (1949) argue that “*people save any money left over from expenditure necessary to keep up with their social reference group*’ and that savings behaviour accrues specific social meaning.

One field of enquiry that may assist in developing an understanding of the connection between social relationships and default behaviour is the research examining the connection between work colleagues and participation in employer-sponsored financial products. Investigation into the link between social learning and employee participation in company-sponsored health plans revealed that employees were influenced in their choice of health plan by the choices of their colleagues (Sorensen 2006). That study also detected weighted social effects – both demographic and hierarchical: employees were most influenced by employees who were of a similar age but higher status. It was also found that the influence of colleagues declined with increased departmental size. Sorensen's research was inspired by Duflo and Saez's (2002a, 2002b) earlier studies into the importance of social influence in the pension domain. Their initial research investigated the retirement savings behaviour of employees who were geographically dispersed but who shared a common, and centrally organised, retirement programme. The research uncovered a correlation between the employees' employment location and their participation in the company pension scheme. Participation was clustered in specific locations but the clustering could not be fully explained by exogenous socio-demographic variables. It appeared that having colleagues participate in the retirement savings plan led to mimetic behaviour. One question raised by Duflo and Saez's (2002a p.130) initial research was whether such behaviour was the result of a *desire for conformity* or a consequence of *learning effects*. A subsequent field experiment by the same authors paid some participants to attend an investment seminar and found that this resulted in higher pension participation amongst both the attendees *and* their non-remunerated peers (Duflo & Saez 2002b). The conclusions that the authors drew from this were that the social effects were considerably greater than the information effects of the

seminar. These findings appear to contradict the financial literacy researchers' belief that lack of information is the principle cause of under-participation in retirement savings plans (Lusardi 2008), and may offer an explanation for the mixed results found by these researchers (Lusardi, et al 2011, Lusardi 2008, Banks & Oldfield 2007, Atkinson et al 2010).

Potential explanations of colleagues' impact on an individual's reactions to enrolment in pension schemes comes from the psychology literature relating to 'information cascades' (Bikhchandani et al 1992). Informational influence is usually present under conditions of uncertainty when individuals assume that others are more knowledgeable than themselves about a situation and consequently draw inferences from their behaviour (Cialdini 2008). 'Observational learning theory' highlights the fact that some individuals defer to the decisions of others rather than seek their own information - so-called *allelomimetic*²¹ behaviour (Bikhchandani et al 1992). This is particularly prevalent when individuals are making parallel decisions involving uncertain rewards (as is the case with enrolment in defined contribution pension schemes). There are useful insights on herding behaviour in the financial domain from the theoretically-orientated works of Banerjee (1992) and Shiller (2015) as well as from the seminal work by Veblen (1899), who traces much economic activity to sociological origins.

The discussion of the gender-orientated literature in the previous sections tentatively concluded that there is merit in adding an additional subsidiary research question on the theme of relationships. The social influence literature just discussed, although not extensive, also draws attention to the fact that retirement decisions are not made in isolation: an individual's behaviour is shaped by the attitudes and behaviour of their social circle, including partners, families, friends and colleagues. Arguably, given the complexity of retirement savings decision-making, there is a high probability that individuals will take their behavioural cues from those around them. If we are to understand reactions to the default setting of workplace pension schemes we also need to understand those social

²¹ herding

relationships. It is with that objective in mind that this current research project includes an additional subsidiary question:

Question: What role do social relations play in default adherence or deviation?

2.5 Situating retirement saving decision-making in the workplace

Finally, this review considers the organisational context in which employees save for retirement – a topic notable for the paucity of dedicated research (Gough & Nixa 2011). In the UK, occupational grouping is strongly correlated to retirement savings participation (DWP 2015), but the association is usually interpreted with reference to income (Clery et al 2010 p.66) - very little attention has been paid to the variation in scheme membership across both occupations and between employers, even though there are considerable differences across firms and sectors (ONS 2014 p.20). Logic would suggest that these variations in scheme membership indicate that the employer-employee relationship is of relevance. The extent to which employers promote pensions varies, as does the generosity of benefits and, until recently, the level of an employee's required contribution had been at the discretion of the employer. Although employers are now required to provide and contribute to pensions within the constraints of the automatic enrolment legislation, they have considerable flexibility over the generosity of additional benefits, the selection of pension scheme administrators, and the choice of investments made available to members. The lack of research interest in the character and activity of the employing organisations is surprising given that much pension enrolment procedure is centred on the workplace. We do not know why individuals deviate from the default settings of their workplace pension scheme, but we do strongly suspect that a full explanation has not been identified by existing pension research. That lack of knowledge in itself justifies investigation of the employment context and it is for that reason that this review now examines some of the literature on organisational management and organisational trust.

An additional consideration is that implicit beliefs in the reciprocal obligations between an employee and an employer²² may be affected by the type of pension contract available to employees. Westerman and Sundali (2005) observe that there has been a shift from a 'relational' approach to employment, where employees expect a long term relation with their employer based upon loyalty and job security, to a 'transactional' approach based primarily on financial remuneration. They argue that this change in expectations may have been exacerbated by the shift from DB to DC pensions and they see a link between transactional approaches to employment and greater employee focus on immediate rather than deferred compensation. This point may be important to this research project because it raises the issue of the studied individuals' perception and response to the DC retirement benefits provided by their employer, particularly since DB benefits are still available to other employees. Moreover, transactional employment relationships may encourage job turnover, both voluntarily by the employee, and as a consequence of short-term employment contracts. There is empirical evidence of a positive association between employee tenure and both pension scheme membership and default deviation (Beshears 2009). In his examination of the Italian welfare system, Jessoula (2012) also noted that temporary contracts, although not necessarily leading to discontinuous careers, impacted on pension outcomes. One explanation for this may be that the focus upon the transactional nature of employment and upon immediate compensation interferes with the process of reflecting upon the suitability of pension contributions. Interpreting Westerman & Sundali's (2005) arguments within the context of diminished employment security suggests that there may be a connection between employees' perceptions of security of tenure and how they respond to default settings.

Both Beshears et al (2009, 2013) and Madrian and Shea (2001) posit that employer endorsement could be an explanation for default adherence. Although little attention has been given to endorsement effects, there is some evidence that the actions of the employer, and the trust that the employee has in them, may play a role in altering investment perception. For example, Bernasek and Shwiff (2001) maintain that employees view

²² Referred to in the organisational management literature as the 'psychological contract' (Rousseau 1989).

investing in their employer's stock as less risky than investing in other equities. Beshears et al (2013 p 130) highlighted the issue of employer trust when they suggest that *'If workers believe that their employer has been benign and judicious in choosing the pre-select, then the pre-select can provide guidance on what a reasonable contribution rate and asset allocation might be.'* Many features of contemporary HR policy such as communication, organisational integrity, career progression and family friendly practices, are believed to drive the perceived trustworthiness of an employing organisation (Schoorman et al 2007, Carnevale & Weschler 1992). The issue of trust is widely covered in the organisational literature and offers some clue as to how and why employer-employee relations might influence behaviour (for a review of the trust literature see Vickerstaff, et al 2012). However, trust and value congruence between employer and employee usually receives research attention only in so far as it enhances organisational performance and the existing research provides inadequate understanding of how employee relations might impact on retirement savings behaviour.

The perception of employer competence may be a factor in endorsement effects. Prior to the 2008 National Pension Act the employer was responsible for setting the defaults in their workplace pension scheme, and one could argue that their past success in managing the pension expectations of their employees may influence the extent to which employees trust that the employer has set suitable defaults. An alternative suggestion is that institutionally-derived defaults are interpreted as being implicitly endorsed (McKenzie, et al 2006). The implementation of the automatic enrolment legislation with its Government-decreed default of 4% has the potential to conflict with the employer-derived defaults - how employees respond to these different messages may determine behaviour.

The literature discussed in this section, although not directly associated with retirement savings research, suggests that including the working environment in the investigative framework might be helpful in interpreting default behaviour that has not thus far been adequately explained. It is for that reason that this research project includes a third subsidiary question:

Question 3: What is the role of the employer in default adherence or deviation?

2.6 Conclusion of the literature review

In this review I have argued that, although having a higher income does go some way to facilitate saving for retirement, the positive relationship between earnings and proactive retirement savings behaviour is not as unambiguous as might be supposed from the initial reading of the literature. Although one can infer from some research literature that there are attitudinal and behavioural characteristics associated with income, this thesis queries the supposition that there is a linear relationship between income and pension adequacy. Lower incomes do not prevent all individuals saving for retirement, nor do higher incomes guarantee pension adequacy.

The review of the literature has identified potential gaps in our knowledge of retirement savings behaviour at different income levels. It also suggests that inadequate attention has been paid to the gradation of attitudes and behaviour amongst those individuals who can be identified as neither 'poor' nor 'rich'. Those individuals who can be classified as middle-earners are generally included with the highest earners and treated as a homogenous group - this thesis suggests that these groups should be disaggregated for research purposes.

Having reviewed the literature that specifically examines default behaviour – most of which has its basis in behavioural economics - I concur with Strauss' assertion that *'there is a paucity of empirical work that grapples with context in pension decision making'* (Strauss 2008 p3). Although the behavioural economists provide empirical evidence upon which to develop this current research project, the analytical paradigm of behavioural economics places theoretical restraints upon the inferences that can be drawn from the data. The conclusion that I have drawn is that, to fully understand retirement savings behaviour, we need to employ an alternative investigative lens and investigate the context in which pension decisions are made

This thesis also questions the assumption that under-saving for retirement is a consequence of information failure. The appraisal of the financial literacy literature concluded that low financial literacy is not a sufficient explanation for low engagement with defaults and nor is financial education an adequate solution to the problem of achieving pension adequacy. Financial planning seems to be the key to explaining default deviation but insufficient

attention has been paid to the circumstances in which individuals develop their financial plans.

The review then examined the literature linking gender to retirement savings behaviour. Although, historically in the UK, women have shown lower rates of participation in pension schemes than men, gender may have become less relevant where membership is higher under automatic enrolment. I conclude that investigating relationships may prove to be a more rewarding avenue for research. The review also highlighted research papers that point to the potentially significant role of family members, including spouses and parents, in financial decision-making although, as yet, little attention has been paid to the effects that these personal relationships have on default behaviour. The role of colleagues was also highlighted in the literature - the existing research in this area does seem to suggest that colleagues *do* have an important role to play in influencing retirement savings decisions - but this theme has not been fully investigated.

Finally, the review of the existing research has highlighted a gap in pension savings literature relating to the role of the employer. Little attention has been paid to either the organisational context of workplace pension schemes or the relationship between employee and employer. The literature suggests that the actions of the employer, and the trust that the employee has placed in their employer, might play a role in altering investment perception. Further, although employer endorsement effects are suspected to have a role in default adherence, this supposition has not been adequately explored. This thesis proposes investigating this gap in our understanding.

From a methodological perspective, previous research into pension scheme default adherence has relied almost exclusively on quantitative approaches. To date, there has been no qualitative research in the United Kingdom investigating individuals' response to default settings after enrolment in a workplace pension scheme. Where qualitative studies have been used in pension research, they have relied predominantly upon heterogeneous samples from wider populations rather than situating the research in the context of the workplace. Thus, we have some understanding of the impact of both micro and meta-level issues upon pension savings behaviour but less understanding of the processes in the workplace that shape saving for retirement.

The existing literature points to a variety of factors influencing retirement savings behaviour. Given this heterogeneity of potential stimuli, it is unlikely that there is a definitive explanation for why one individual might adhere to pension scheme default settings whilst another might deviate from them. This research project therefore proposes taking a broad exploratory approach in order to further our understanding of the savings behaviour of individuals within the context of automatic enrolment in the UK. It will use qualitative methods to explore how middle-earners respond to workplace pension schemes and investigate the circumstances under which they adhere to, or deviate from, the default settings of these schemes.

This thesis addresses the following research question.

Under what circumstances do individuals adhere to or deviate from the default settings in occupational pension schemes?

In addition, it poses three subsidiary research questions which have been suggested by the review of the existing research literature:

Question 1: How important is financial planning to default adherence or deviation?

Question 2: What role do social relations play in default adherence or deviation?

Question 3: What is the role of the employer in default adherence or deviation?

3 Research Methods

This chapter describes in detail the methods used in the research process. The presentation of this information is subdivided into three thematic areas headed; Research Design, Conducting the Research, and Data Analysis. The opening paragraphs briefly restate the research problem, reiterate the research questions, and provide a summary of the research design. The subsequent section describes the ontological and epistemological assumptions underlying the research and explains how these assumptions have informed the research design. This is followed by details of the research design and underlines the usefulness of case studies in this type of research. Qualitative interviews were adopted as the principal data collection method – and as well as offering justification for this, the section details the reasoning behind the use of face-to-face methods and semi-structured interviews. The chapter also describes the use of saturation techniques to determine sample size and explains the methodological advantages in focusing solely upon middle-income employees. The final paragraphs discuss ethical issues and demonstrate that due consideration was given to these prior to commencing data collection.

The section headed ‘Conducting the Research’ elaborates upon the specific operational procedures that were undertaken to gain access to research participants. These included the creation and administration of a web-based questionnaire – the responses from which were helpful in developing the questions subsequently used in the face-to-face interviews. Section 3.2.2 onward discusses the qualitative data collection and explains how the research design developed during this phase of the research. This part focuses primarily upon the participant selection and the procedural modifications that were made to the research design following the pilot interviews.

The ‘Data Analysis’ section provides an explanation of the data analysis methods and explains that data collection and analysis were conducted concurrently. It also discusses the way in which the theoretical premises underlying the interview questioning evolved as the data collection proceeded. The section concludes by detailing the coding techniques used in the analysis. The chapter culminates with a reflection upon the research experience.

3.1 Designing the research

3.1.1 The research problem

The main objective of the research was to broaden our understanding of retirement savings behaviour by exploring how employees respond to enrolment in a workplace pension scheme, and the dynamic decision-making processes that underlie individuals' assessment of the appropriateness of their pension contributions. In particular, the research specifically sought to answer the following research question:

Under what circumstances do individuals adhere to or deviate from the default settings in occupational pension schemes?

The project also sought to answer to the following subsidiary questions:

Question 1: How important is financial planning to default adherence or deviation?

Question 2: What role do social relations play in default adherence or deviation?

Question 3: What is the role of the employer in default adherence or deviation?

The method chosen to achieve these objectives was an embedded case study - that is, a case study containing multiple units of analysis - and the research utilised primary quantitative and qualitative data. The qualitative data, upon which the thesis findings are based, was gathered from the semi-structured interviews of twenty-five employees of a single large UK employer. The strategy used to select participants and to analyse the data was based upon Mill's Method of Difference (Mill 1843) in which similar cases are examined to uncover possible explanations of different outcomes. The study focused on middle-income employees and, in addition to income, similarity was operationalised in terms of age and education. The project also included the collection of data using a researcher-developed on-line questionnaire and several pilot interviews. The main function of the questionnaire was to act as a filtering tool to facilitate the purposive sampling for the in-depth interviewees. The data collection and analysis were conducted using an iterative process: the initial data-collection from each interview was analysed and used to inform the questioning in the subsequent interviews.

3.1.2 The ontological & epistemological assumptions underlying the research

3.1.2.1 Ontology

Ontology is a personal assumption - it describes the '*beliefs about the nature of reality and truth. Claims about what exists, what it looks like, what units make it up and how these units interact with each other*' (Blaikie 2009 p.92).

I bring my own world views and sets of beliefs to the research project and these will have unavoidably influenced how the research has developed, and underpinned both the analysis of the data and the writing of this thesis. To fully understand the research findings, one needs to be clear about the ontological position underlying the research. To do otherwise risks laying this research open to criticism for ignoring factors which the ontological position does not acknowledge.

My beliefs about the nature of the social reality to be investigated derive from critical realism (Archer et al. 2013). Critical realists believe that a reality exists but that our understanding of it can only ever be imperfect and probabilistic because all observation is fallible and all theory is revisable. Objective truth is desirable but, realistically, unobtainable because all social scientists are inherently biased by their cultural experiences. Our understanding of the world is constructed through experience and this leads, inevitably, to numerous different interpretations of what is meant by reality. That is not to say that we should not *attempt* to understand reality – at a minimum, understanding is necessary for the development and implementation of policy - but it is my belief, as a critical realist, that understanding can best be achieved by constructing our concept of reality using multiple perspectives. Combining the perspectives of a variety of other scholars in my chosen field with my own understanding will ideally bring us closer to a collective, albeit inevitably fallible, understanding of the world.

3.1.2.2 Epistemology

Epistemology is concerned with providing the philosophical basis for what can be *regarded as acceptable knowledge in a discipline* (Bryman 2004 p11). Knowledge is derived from a variety of sources, including not only established empirical findings but also personal experiences and logical reasoning.

It follows that, if we believe, as I do, that objectivity is a social rather than an individual phenomenon, then our clearest hope of understanding default adherence, is to adopt a multi-faceted approach to the problem. The aim of this research, therefore, is not to replicate the existing research into default adherence which takes a positivist approach (Madrian & Shea 2001, Choi et al. 2001, Beshears et al. 2009, 2010, 2013, 2015) but to consider the problem from an alternative epistemological and cultural perspective. I accept that the quantitative methodology utilised in much of the existing research into default adherence has made a valuable contribution to the study of default adherence: the use of statistical analysis and experimental field studies contributes to the construction of our understanding of the experience of automatic enrolment and default adherence in the United States. However, I concur with Strauss' (2008 p.11) assertion that *contextual factors including social and spatial form of embeddedness cannot be easily grasped through the application or experimental or quantitative methods*. I believe that, in order to develop a fuller understanding of the phenomenon under scrutiny, it is relevant to utilise a variety of methods and to examine the problem from an alternative cultural and theoretical perspective.

This PhD study is an exploratory research project. Exploratory research can be defined as initial research that lays the groundwork for future studies (Stebbins 2014). It either considers a new topic, or, as in this case, considers an existing topic, from a new angle. The fact that this research is exploratory is of considerable importance: it is not seeking to make strong claims for a relationship between the research participants' behaviour and their default adherence or deviation. The aim is to acquire empirical data which can be used to develop hypotheses and to illuminate directions for further study. Consistent with its exploratory aims (and as will have been apparent from a reading of the literature review), the study has adopted a wide-ranging approach to the topic of default adherence. The exploratory intentions of the study should temper the reader's response to the multiplicity of the data presented in this thesis.

3.1.3 Data collection methods

3.1.3.1 Case study

This study used an embedded case study - that is, a case study containing multiple units of analysis (Yin 2013). Interpretations of what is meant by 'case study' differ across research disciplines. Case studies can be exploratory, explanatory, or descriptive and it is argued that there is a distinction between case studies that are '*a focused study that reflect on a larger population*' and '*case studies that explain only a single case*' (Gerring 2006 p.707). This research project falls into the category of an exploratory study that investigates a group of individuals within an organisational context.

Case studies have a long history in research and, *per se*, offer several advantages. Case studies allow for the collection of data which is both rich and which provides context for the research. Case studies add insight at the theory building stage and can aid in identifying new variables and hypotheses. This is particularly relevant to studies using multiple cases since specifics that are identified in multiple cases can inspire the formation of theory. Using case studies is effective for theory testing, particularly using falsification methods because the in-depth approach aids in differentiating subjects that might appear similar using other methods of data collection.

It was recognised from the outset that there might be limitations to using a single case study to answer the research questions because it was not known to what extent overcoming defaults is primarily actor-led, and to what extent it is a consequence of the wider environment. The boundary between the phenomenon of default deviation and the circumstances of its occurrence is not axiomatic. Specifically, existing research points to a correlation between an individual's financial behaviour and the behaviour of their work colleagues (Sorensen 2006, Duflo & Saez 2002a, 2002b). One response to this uncertainty was to design the research as an embedded case study and to focus upon multiple employees of a single employer so that the work-context of the participants might be taken into consideration. Another advantage in adopting an embedded case approach is its potential to eliminate variables that might otherwise risk obscuring our understanding of the extent to which circumstances shape responses. So, for instance, in this case, it was not

known to what extent pension scheme architecture influences reactions to the default settings. A benefit of limiting the investigation to the employees of a single employer was that it provided confidence that all the participants had access to the same workplace pension scheme.

One criticism of the use of a single case study in research is that the idiographic nature of single cases may mean that the data is unique to the subject or circumstances. Consequently the conclusions drawn from such a study cannot be applied in other contexts. It may also be considered difficult to establish external validity or generalisability using a case study and the conclusions drawn may not be applicable to other cases. Blaikie (2009 p193), in citing Lincoln and Guba (1985 p 124-50), argues that generalisability of case studies is possible if the researcher provides sufficient information on the '*context of the research to allow anyone else to judge whether the findings may be relevant to another context about which they have similar information*'.

Seeking a response to the criticisms of single case studies is another reason why this research was designed as an embedded case study. The research investigates multiple individuals within a single organisational context – specifically, it focused on the employees of a single employer. By adopting multiple units of analysis, the idiographic disadvantage of single case studies is minimised since it becomes possible to compare research findings across cases. The embedded cases were purposively selected to be relatively homogenous,²³ facilitating cross-comparison (participants' demographic data is included in Appendix C.). So, although one cannot generalise the findings to the wider population, it may be possible to apply conclusions about the embedded cases to similar social groups.

It is acknowledged that it would be difficult to generalise about the organisational context. However, further to Blaikie's point, the research was designed to include a questionnaire to gather background data on all of the employees at the research sites (not just those interviewed) and this data is included in the 'Background to the Case Study in Appendix B. The thesis thus provides sufficient data for the study to be replicated in order to verify its external validity.

²³ See Section 3.2.3

3.1.3.2 Qualitative interviews

As a direct consequence of my ontological and epistemological beliefs, I chose to utilise qualitative interviews as the primary data-collection method and because I embrace the concept of multiple interpretations of reality, I made a conscious decision to conduct qualitative research so that I might, by studying individuals in depth, report these multiple interpretations. I also selected in-depth qualitative interviews because I believe that these give the researcher flexibility to respond immediately to themes that are emerging from the data. Qualitative interviews also provide data that is more 'nuanced', and 'contextual' than can be extracted from survey and experimental methods. Qualitative methodology is also best suited for providing insight into the meaning and purpose that individuals attach to savings that are allocated for retirement. The in-depth interviewing of employees allowed for an exploration of the individual motivation for default adherence or deviation.

Interviews also facilitate the exploration of subliminal or complex motivations for retirement savings behaviour. For example, one line of enquiry which had been suggested by the review of the literature was whether or not social relationships within the workplace have an influence upon default adherence. It was possible that the respondents might be unaware of these influences, or might not attach significance to them; in-depth interviews and the ongoing analysis of the conversations would facilitate the identification of inexplicit influences behind behaviour. It was anticipated that qualitative interviews would also help develop a deeper understanding of those individuals whose savings behaviour was similar but whose motivations were different – for instance, differentiating between those participants who did not save into pensions because they did not understand that they need to, and those who purposely did not want to save (Sourdin 2008).

All interviews were conducted on a face-to-face basis. There are numerous well-documented advantages in employing face-to-face interviews. This type of interview is particularly suited to research scenarios where the attitudes and experiences of the interviewee are important. Face-to-face interviews enable the researcher to access social cues and help facilitate a productive interview ambiance. In comparison to other methods, such as e-mail interviews, responses from the interviewee tend to be more spontaneous during face-to-face interviews and the researcher is able to react in real time to the

interviewees' comments (Brinkman & Kvale 2014). However, one needs to be aware when using this method that the social preconceptions, of both researcher and interviewee can influence the development of the interview. This point is discussed in greater depth in the 'Researcher's Reflections in Section 3.4

The qualitative interviews used a semi-structured format. One advantage of semi-structured interviews (as opposed to unstructured interviews) is that the researcher is able to consider questions in advance. Preparation increases both the perception of competence during the interview and facilitates the development of the interview- having a framework to guide the researcher helps when interview participants stray from the topic. Additionally, the open-ended structure of the interviews enables participants to describe in their own words their experiences and motivations, and offers the researcher the flexibility to explore avenues of interest that are opened up during the conversation. Semi-structured interviews also have the advantage of being suitable for one-off encounters (Bernard 2000). The decision to elect for single interviews was based on the understanding that single interviews are considered more likely to increase the willingness of potential interviewees to participate in research. Although repeat interviews offer the advantage of facilitating relationship establishment, one-off interviews are less demanding for participants (Yin 2013).

3.1.3.3 Sample size

The data used for the analysis presented in Chapters 4 to 6 inclusive consists of twenty-five single in-depth interviews. Although the sample size was not fixed prior to beginning data collection, it was expected that it would fall within Creswell's suggested range of 20-30 as being the ideal number of interviews (Creswell 2008). Qualitative research is about understanding meaning and, from that perspective, one example of an experience can be as valuable to the researchers as multiple examples. Accordingly, this research project utilised the concept of saturation - i.e. to cease interviewing when subsequent interviews are producing 'no new or relevant data' (Glaser & Strauss 1967). Saturation is something of an elastic concept and the decision to stop interviewing can be arbitrary. A high level of homogeneity amongst the research participants might mean that a smaller sample would suffice – likewise, heterogeneity might lead to the use of a larger sample. The skill of the interviewer does affect the quality of the collected data; quantifying the point at which

saturation would be reached was not possible prior to commencement of the interviews (Guest et al. 2006).

3.1.3.4 Investigating middle-income employees

The individual participants (the embedded cases) were all employees with stated earnings between £27,000 and £40,000. In this thesis they are referred to as ‘middle-earners’ or ‘those on middle-incomes’.²⁴ My initial interest in middle-income employees stems from concerns, highlighted in the introduction, that, as it stands, the automatic enrolment provisions in the 2008 Pensions Act may not lead to improved retirement outcomes for all economic groups. The policy concerns, and the associated UK pensions research that preceded the introduction of the Act, largely focused on low-income groups and those not saving for retirement (Pensions Commission 2006). The unintended consequences of low default settings for those on middle incomes have not been adequately investigated.

There are sound reasons why this particular socio-economic group merits specific research attention. The existing research literature points to the likelihood of socio-economic status having an influence upon attitudes to automatic enrolment. Although, in principle, those on middle incomes are in favour of automatic enrolment, they were also more likely than lower-earners to express an intention to opt-out (Bourne et al. 2010). Significantly higher numbers of workers with earnings above the median expressed an intention to contribute more than the minimum default when they were automatically enrolled (Bourne et al. p63). The responses that those on middle incomes have to automatic enrolment are likely to differ from those of lower earners. Some of the research suggests that the relationship between income and savings is not linear and that in some circumstances those on middle incomes may save relatively less for retirement (Huberman 2007).

Because they have higher salaries, middle-income employees will tend to have greater flexibility regarding their financial decisions. Ultimately, the choices that they make about their level of contribution into workplace pensions are likely to reflect their priorities rather than absolute levels of affordability. Investigating them as a separate research entity should facilitate the identification of explanations for default adherence and deviation. There is an

²⁴ In the tax year in which this study took place (2012-2013) median gross annual earnings for full-time adults was £27,000. Higher rate tax was payable on earned income above £42,500 (ONS 2013).

additional methodological advantage to restricting the study to employees with earnings of between £27,000 and £40,000 per annum. At these income levels, there is unlikely to be any interaction with state benefit withdrawals or higher rate tax liabilities - factors that might distort savings motivations.

3.1.4 Ethical issues

The issue of ethics needed careful consideration before beginning the study because the main selection criterion for interview participants was to be based upon income levels. If it were revealed to participants, or their colleagues, that the study was focusing on employees with above-average earnings, participation in the in-depth interviews could potentially reveal salary levels. The ESRC (2010 p.3) guidelines state that research subjects must '*be informed fully about the purpose, methods, and intended possible uses of the research*'. Strictly satisfying those criteria for the pre-selection of candidates risked compromising the confidentiality of the interview participants. This point was discussed with the sponsoring employer and it was decided, both for confidentiality reasons and for logistical reasons, that a pre-interview questionnaire would be made available to all employees. Included in this questionnaire was a question inviting respondents to provide their email addresses if they wished to participate in further research. This database of volunteers was subsequently used to gain access to potential interview candidates.

Employer cooperation was required, and, indeed, that cooperation was integrated into the research design - during the quantitative data collection phase, the human resources department of the sponsoring employer emailed all employees with a link to the on-line questionnaire. However, it was necessary to ensure that the potential respondents did not feel coerced by their employer into participating in the research. It was made clear, both in documentation accompanying the questionnaire and when arranging the interviews, that participation was voluntary.

It was emphasised to all participants that HR personnel had no further role to play and that the questionnaire responses would only be seen by the researcher. This issue of 'assuring confidentiality was important for methodological as well as ethical reasons' because, arguably, it would increase participation and honest response to questions (De Vaus 2001

p.87). There was also the issue of how to afford anonymity to participants, particularly since the preference was to conduct interviews in the work place. Potential participants were offered the choice of interview location and at no time were colleagues, such as reception personnel, made aware of the purpose of the meeting. Participants were advised during the interview that the sponsoring company management did not know which employees were participating in the study, although it would receive an anonymised summary of the research findings. During the interview stage it was explained to participants that the other participants in the study were of similar age, income, and educational background, but the precise details of the selection were not revealed.

In accordance with ESRC guidelines, all potential interview participants were briefed on the purpose of the research and advised what their participation in the research entailed and what risks, if any, were involved. The right to withdraw at any time was emphasised, both before the questionnaire and before the qualitative interviews. To this effect, all potential interviewees were provided with information sheet (Appendix F) by e-mail when arranging their appointments. The information sheet explained to participants that their comments would remain anonymous at all times. The information sheet was also made available during the interview.

Although the research was highly unlikely to be harmful to participants, it may be considered that discussing personal finance is a sensitive topic. Following completion of the University of Edinburgh's Level 1 Ethical Review Self-Audit, this research project was categorised as Level 2. Prior to commencing interviews, participants were asked to sign a disclosure form (Appendix F). Several weeks after the interviews, participants were sent a thank-you letter, which offered to answer any post-interview questions.

The research also involved the collection of financially - sensitive information with particular attention given to issues of data protection. The questionnaire data is held on a password-protected laptop that is kept in a secure environment. Taped interviews were transferred as soon as possible to the secure PC and respondents were allocated a letter of the alphabet to ease identification. The interviews on the recorder were erased to ensure that loss of the recorder would not compromise data protection. The presentation of the analysis in Chapters 4, 5, and 6 also includes the use of quotations by the participants. Quotations have

been used in this thesis because I felt that these play a key role in helping clarify conclusions. I also believe that quotations provide evidence of interpretations and are useful for illustrating specific points, which adds credibility to findings - although I acknowledge that this latter point is not always accepted (Corden & Sainsbury 2006). The use of quotations does, however, raise the issue of confidentiality. Strenuous efforts were made in the data presentation stage to anonymise both individuals and the research locations to ensure that inadvertent identification of individuals did not occur through identification of the context (Wiles et al. 2008). Where necessary, quotations were truncated to remove names and location indicators.

3.2 Conducting the research

3.2.1 Gaining access to the research participants

This research project was based upon embedded cases - I was consequently faced with two access issues. Firstly, I had to decide upon, and gain the cooperation of, a suitable employing organisation. Secondly, I had to gain access to the individuals who would be interviewed for the research. The first point of access was achieved with very little difficulty and is outlined in the next paragraph. The second point involved a protracted period of preliminary data-collection, the elements of which are discussed in the subsequent paragraphs.

3.2.1.1 *Selecting the research site*

The prominent research literature investigating automatic enrolment appears to attach little theoretical importance to the employment sector of the firms introducing automatic enrolment (Choi et al 2001, Beshears et al. 2007, 2009, 2010). There seems to be an assumption in the theory that the strength of default adherence is linked to agent-based characteristics rather than to employment-sector characteristics. However, the history and culture of the firm selected for the study is of course relevant in the UK context because most private sector employees are automatically enrolled into DC schemes whereas most public sector employees are enrolled into DB schemes. With that point in mind, a decision was made early on to select a research site from the private sector. An early decision was also made to recruit a large FTSE 100 company. This was primarily because only the largest

UK employers would have introduced automatic enrolment by the time that the research was scheduled to begin.

In all credible research, the restrictions imposed by the researcher's circumstances need to be acknowledged, and adaptations that are made to the research design following its conception ought to be described. For example, in this research, the original intention was to recruit a FTSE 100 firm with employees in Edinburgh: this was in order to limit the cost involved in travelling to interview participants. Previous researchers have found that, in the UK, the region of residence has relatively little impact on pension planning (Clark & Strauss 2008) and, consequently, restricting the location of participants was unlikely to impact on the study. An approach was made through a pension fund management group (that had previously worked with the University) for contact with a suitable employer. Through this contact, I was introduced to the pensions director of a large utility company. This firm not only agreed to participate in the project, but also, serendipitously, had voluntarily been automatically enrolling new employees into its DC pension scheme for several years. This latter fact immediately altered the focus of the research project. The original intention had been to focus on default adherence/deviation in the few months immediately following the introduction of legislated compulsory automatic enrolment - and in particular to investigate opt-out behaviour²⁵ - but the presence of potential interview subjects who had been experiencing an auto-enrol environment for several years opened up the research to investigation of behaviour over a much longer time period. This additional data would aid in shedding light on the dynamic decision-making processes underlying retirement savings behaviour.

3.2.1.2 Using a survey to access potential participants

The intention was to examine the motivations and behaviour of middle-income employees, but selecting participants based on income created some difficulties. In addition to the confidentiality issues mentioned in the ethics section, the employer was unwilling, because of data protection issues, to provide contact details of those employees who fitted the

²⁵ . The legislation includes an opt-out period of one month following automatic enrolment and during this period, employers are obliged to notify the employee of their right to opt out of the pension scheme and to refund any contributions that have been paid.

study's earnings profile. For that reason, it was agreed that I could survey all of the employees at the research site and, by including a voluntary question on salary levels I would be able to develop a database of suitable candidates for interview. The number of responses obtained was not critical because the questionnaire was not intended to be used to obtain statistically robust data, although it was anticipated that a high response rate would provide a larger pool of potential participants.

Although it was not necessary to make the questionnaire particularly complex, in light of Blaikie's (2009) comments on generalisability of case studies, I also decided that, in addition to the socio-demographic questions required for filtering purposes, I would include supplementary questions on attitudes to saving for retirement and levels of financial literacy. The resulting company-wide response to the questionnaire provided useful context by building up a picture of the case-study employees. This subsidiary data is included in the 'Background to the Case Study' which can be found in Appendix B. Although most of the questionnaire results are not integral to the analysis of the qualitative findings they may be considered useful *'to allow anyone else to judge whether the findings may be relevant to another context (Blaikie p.193)*. In addition, some reference is made to specific questionnaire results - for example, when discussing the development of the interview questioning (Section 3.3.2), or deliberating on the role of the employer in influencing retirement savings decisions (Chapter 6).

The inclusion of the supplementary questions in the pre-selection questionnaire afforded an additional benefit. Prior to the interviews taking place, I had already built up a detailed profile of the participants and this enable me to conduct more focused interviews. To give an example, the questionnaire included a small section on financial literacy, allowing me to be aware of the financial literacy skills of the participants prior to the interviews. I was therefore able to concentrate on how the participants perceived their financial literacy and how this impacted their behaviour.²⁶

²⁶ This is discussed in Chapter 6.3

3.2.1.3 Designing and administering the survey

The costs associated with a mail survey can be substantial and, because this research was un-funded, the questionnaire was fully web-delivered, since this was the only economically feasible means of collecting the data. One advantage of conducting a web-based self-administered survey is that this type of delivery system has been found to be efficient when sensitive issues are involved (Schaefer & Dillman 1998). The proposed questionnaire contained queries that some respondents might have found sensitive and I reasoned that using a web-based survey would improve the quality of the data collected. Another advantage of web-based questionnaires is that they allow for contingency questions - meaning that the participants did not need to read questions that did not apply to them. Keeping a survey short and easy to read is known to reduce the possibility of participants abandoning the survey halfway through.

Before designing the questionnaire, I read extensively on survey design. Attention was paid to the use of words, symbols, and graphics fonts, and the use of Likert scales. The questionnaire was designed to be completed in about ten minutes and the covering email emphasised this. Galesic and Bosnjak (2009 p.349) found that the longer the stated length of a survey, the fewer respondents started and completed it. *'In addition, answers to questions positioned later in the questionnaire were faster, shorter, and more uniform than answers to questions positioned near the beginning.'* In light of these findings, the demographic questions were put at the end of the questionnaire - the reasoning being that these would be easier to answer than questions about pension participation. In addition, in order to increase the item response rate respondents were reminded halfway through the questionnaire that their replies were confidential and an indication was given of the length of time to completion. The questionnaire was pilot tested prior to launch, as recommended by Van Teijlingen & Hundley (2001), to verify whether the data collection and analysis techniques were effective. The pilot site was a small manufacturing company based in the Midlands who had been recruited through personal connections.

The full survey was launched in January 2013²⁷. The questionnaire was delivered and administered by the Bristol Online Survey.²⁸ Notification of the questionnaire was conducted by the HR department in the sponsoring company. An email, drafted by the researcher, and including a link to the online questionnaire, was sent to all staff by the Pensions Director. It is conjectured that the actions of employers in relation to pension savings has an endorsement effect (Madrian & Shea 2001) and it was hoped that this effect would improve response rates by increasing the legitimacy of the questionnaire. However, it was also possible that participants would be concerned about the confidentiality of their responses, and that they might not respond truthfully to the questions (De Vaus 2001). To circumvent this, the covering email emphasised that the employer would have no access to individual completed questionnaires (Appendix F).

3.2.2 Data collection

This section of the chapter explains how the research design developed during the qualitative data collection phase. It provides an audit trail of the interview process and describes the alterations that were made to the design after the project had begun. The qualitative interviews were undertaken in two discrete stages. For ease of identification, the first stage is referred to in this thesis as the pilot interviews, although strictly speaking, these could best be described as exploratory interviews. The explanation starts with a discussion of the sampling decisions that were made when selecting the pilot interview participants and included in this discussion is an explanation of the sampling terminology.

In the pilot qualitative data-collection phase nine participants were interviewed and the findings were then analysed²⁹ using descriptive coding and initial pattern coding. This early analysis revealed which of those themes that had been raised by the literature review most resonated with the participants. The analysis also provided suggestions for additional interview questions and possible areas of research interest. In addition, these initial interviews provided an opportunity for me to ascertain whether the data collection and

²⁷ An appendix (Appendix D) is attached which provides more details on the administration of the survey and lists the questions and the responses.

²⁸ Bristol Online Survey is a web-based survey tool to develop, deploy and analyse surveys.

²⁹ A full description of the analysis techniques is described in 3.3

analysis techniques were effective before fully committing to the project. The pilot interviews caused me to question the premise underlying the sampling criteria used in the research and, after some reflection, led to changes in the research design. The most significant amendment to the research design was my decision that participants should be selected on the basis of homogeneity, even though the initial intention had been had been that they would be a heterogeneous selection. The justification for this change in design is discussed in this section.

Finally, this part of the chapter details the additional criteria of age and education that were used to select the participants whose comments were subsequently featured in the analysis.

3.2.3 Sampling decisions

There is some inconsistency in the literature concerning what is meant by ‘sampling’ in qualitative research, and the terms ‘purposeful’, ‘selective’, and ‘theoretical sampling’ are often used interchangeably (Coyne 1997). In light of this, it would be helpful to define how the terminology is used in this thesis. One can take the view that all sampling in qualitative research is purposeful and consequently, that ‘purposive sampling’ can be present at all stages of the research (Patton 2002), but it is, arguably, *always* present in the early stages. With that in mind, in this thesis, ‘purposeful sampling’ relates to the selection decisions I was faced with early in the research. This research was primarily concerned with obtaining data that would provide a rich and nuanced understanding of default adherence and deviation and, so in order to further these objectives, I needed to deliberately seek out cases that could provide the required richness. This required me to reflect on the theoretical priorities underpinning the research, and to proceed to participant selection with those priorities in mind.

One of the first decisions that had to be made was whether or not to use phenomenon variation in the selection process. In this study, the phenomenon under study is default deviation and the principal variation is default adherence. An employee faced with automatic enrolment has three possible courses of action: to remain opted in and pay contributions at the minimum default level; to remain opted in but contribute more than the minimum level; or to opt out. In preparation for the interviews the potential interview

candidates were purposely divided into three groups, according to the aforementioned criteria. After splitting the sample along phenomenon variation lines, three candidates for interview were 'selectively sampled' from each group. In this thesis, the term 'selective sampling' is used to describe the selection criteria at the individual case level. Thus, 'selective sampling' refers to the procedures used to discriminate between individuals when choosing whom to interview.

3.2.3.1 *Heterogeneous sampling for the pilot interviews*

In the pilot stage of interviewing, I deliberately sought heterogeneity in the sample selection. The advantage of seeking heterogeneity is that it provides a variety of perspectives and range of experiences and is particularly suited to research where little is known about attitudes to the phenomenon under investigation. However, using heterogeneous sampling required some reflection because what is meant by heterogeneity is open to interpretation. Firstly, I needed to consider which variables were of significance when operationalising heterogeneity. This point was particularly pertinent to this research because (as a consequence of having collected survey data) there were a large variety of variables that could be considered in the selection process. To mention just a few examples, I was aware of potential participants' financial literacy skills, sources of pension advice, and whether they had non-pension savings.

Secondly, I needed to consider the extent of the variation. I took my guidance from the literature - both the quantitative and the qualitative literature suggest that younger individuals are less likely to save for retirement than older individuals (Clery, 2010, Thomas 2009), and are more likely to adhere to defaults (Beshears 2009, Huberman et al 2007). This led me to seek a broad socio-demographic heterogeneity based upon age. I was also drawn to deviant case selection. Silverman (2009) argues in favour of deviant case study because it has the potential to explain the atypical as well as the typical. Identifying themes present in both typical and atypical cases has the potential to assist in developing theory development. Silverman also says that there is *something intrinsically interesting*, about analysing cases where the predicted result is not occurring (Silverman 2009).

I invited nine individuals from across the age and education spectrum for interview, three of whom had opted out of the pension scheme; three of whom contributed at 3%, and three of whom contributed at 6%. In the initial analysis of the questionnaire data I had identified a well-educated male earning well above the national average whose apparent lack of savings ran contrary to existing research findings that link socio-economic status with pension saving. This anomaly piqued my interest and this ‘intrinsically interesting’ case was amongst those selected for interview. After interviewing the nine individuals, I stopped data collection and conducted a rudimentary analysis of the data. Pausing after interviewing nine participants provided me an opportunity to reflect upon the meaning of the interview content. A further advantage was that analysis of the pilot stage interviews allowed me to ascertain the effectiveness of the data collection and analysis techniques before having reached a stage in the research where weaknesses in the design were could not be rectified (that is a point of no return). The pilot interviews helped greatly in this respect and highlighted areas that required greater reconsideration, specifically the sampling method and analysis.

One important finding from this preliminary analysis of the pilot interviews was that the intention to select participants based upon phenomenon variation was flawed. I discovered that the participants’ behaviour could not be neatly categorised into default adherence, default deviation or opting out. The questionnaire recorded a snapshot in time of employees’ default status but it did not capture the fluidity of behaviour - in other words, some participants who appeared to be adhering to the default had, in fact, previously not done so. Additionally, there were changes in pension membership status in the months between the questionnaire and initial interviews, with at least one participant increasing his contribution during that time. The theory underpinning automatic enrolment emphasises the role that inertia plays in maintaining the status quo (Benartzi & Thaler 2004) and consequently, the dynamic nature of the participants’ reactions to the default settings had not been expected. Changes in behaviour post auto-enrolment is a key point whose significance may not have become apparent had I delayed analysis until after all the data for the project had been collected³⁰.

³⁰ Discussed in depth in Chapters 5 and 6.

3.2.3.2 Settling on a homogenous sample of participants

In light of the finding that there was greater fluidity in individuals' responses to the default settings variation than anticipated, it was decided that the study should instead proceed on the basis first described by John Mills in 1843, whereby similar cases are examined to uncover possible explanations for different outcomes. Drawing on the quantitative literature discussed in Chapter 2, which points to correlations between socio-economic variables, and pension asset accumulation (Clery et al 2010, Huberman et al 2007, Banks et al 2005), similarity was conceptualised in terms of income, age, and education levels. A further twenty-three individuals were then invited for interview. These subsequent participants all shared the following characteristics: their salaries fell between £27,000 and £40,000 per annum; all were all born between 1973 and 1983; and they all had received a tertiary education. Two of the participants who were interviewed in the first stage of interviews also met the new, stricter selection criteria. The final analysis of interviews presented in Chapters 4 through 7 is based upon these twenty-five relatively homogenous participants. To reiterate, the interview participants used in the final analysis were selected on grounds of socio-demographic similarity and *not* on phenomenon variation.

As previously stated, the eventual design for the study uses Mill's Method of Difference. Similarity in cases can be defined in numerous ways, and the criteria for selection in this project were considered in some depth. Justification for the income criteria has already been provided but the following paragraphs detail how the other selection criteria were operationalised and why particular decisions were taken. The large pool of potential interviewees allowed for a precise selection of candidates and the criteria subsequently used were based on age and education.

3.2.3.3 Refining participant selection based on age and education

The experience gained in the preliminary interviews prompted a narrowing of the age criteria to exclude the oldest and youngest individuals. The youngest participants had little awareness either of their workplace pension scheme or of the need to save for retirement, and whilst that lack of awareness might, in itself, be an interesting phenomenon to investigate, it became clear that interviewing employees in their early twenties was unlikely to provide to rich enough data help answer the research question.

The older participants presented a different problem in that their experiences of workplace pensions encapsulated a period of tremendous change in the UK pension landscape. Most of the older participants had some pre-existing entitlement to defined benefit pensions. Membership of an auto-enrolled DC occupational pension scheme becomes less relevant for older individuals the closer they are to retirement. This is particularly the case when they anticipate a large percentage of their retirement income will derive from pre-existing DB benefits. I felt that it was appropriate to exclude older workers because their insight would be less likely to help answer the research question. Additionally, although the rapport that I established with the older participants was good and the interviews provided rich data, there was a risk that identification with their circumstances and understanding of their historical perspective might cloud my analytical judgement. There is an argument to be made for researchers interviewing individuals with whom they can identify but this approach requires discipline; an ability to step back from the interview and allow the participants room to talk. As a fledgling researcher, I felt that identification might be a disadvantage rather than a benefit to the data collection and analysis and I therefore selected the middle ground between youth and age: the participants used for the analysis were all born between 1973 and 1983.

All of the participants in this study had tertiary education. The basis for selection of interviewees on educational attainment comes from the existing literature on automatic enrolment and default adherence. There are socio-economic differences in attitudes to automatic enrolment but, generally, better-educated individuals view retirement saving more positively (Clery et al. 2010). Socio-economic factors also correlate with default adherence (Madrian & Shea 2001) and the well-educated are less likely to adhere to the defaults. Education is often used as a proxy for financial literacy in quantitative research although the two are not synonymous. I had included questions in the pre-selection survey that tested financial literacy skills and I was in the advantageous position of knowing that the participants in the study could all be classified as highly financially literate. By interviewing individuals with a similar educational background, I also hoped to shed light on the interrelationship between education, financial literacy and default adherence. The undernoted table lists brief details of the participants and the page numbers of selected quotations. Participants are identified by a randomly assigned letter of the alphabet. A

more comprehensive description of the participants' demographic status is included in Appendix C.³¹

Details of Participants used in Analysis

	Age	Gender	Highest Education Level	Contribution % of salary	Page Number of quotation
A	30	Male	Degree	6	83,86,107,110,119,144,151
B	33	Female	Postgraduate	3	109,121,122,141,149
C	35	Male	Degree	6	94,109,113,119,136,145,148
D	32	Male	Degree	9	135,143,145,149
E	40	Female	Degree	6	83,88, 95,113,121,138,139,150
F	37	Male	HNC/HND ³²	6	86,140,142
G	34	Female	Degree	3	84, 88,109,118
H	40	Female	HNC/HND	8	83,85,90,97
I	31	Female	HNC/HND	3	84,93, 117, 118,134,135,136
J	39	Male	Degree	6	115
K	35	Female	Postgraduate	6	142,144,147
L	39	Male	Degree	6	77,82,114,143
M	36	Male	Degree	3	88, 93
N	35	Female	Postgraduate	0	137,147
O	32	Male	HNC/HND	3	95,98,149
P	34	Male	HNC/HND	7	85,111,116,133,134,143
Q	39	Male	Degree	6	85,92,98,115,116,146
R	34	Female	Degree	6	87,113,135,139,147
S	37	Male	Degree	3	115
T	30	Female	HNC/HND	3	107,114
U	37	Male	Degree	0	98
V	33	Female	Degree	6	86,108,111,148
W	35	Male	Degree	0	92, 108,110,118
X	30	Male	Postgraduate	5	120,134
Y	33	Female	Postgraduate	3	82, 94

³¹ The appendix also records the enrolment timing and contribution levels of the participants. It should be noted that there was some fluidity in phenomenon variation in the months following the questionnaire. Three individuals who are recorded in the survey as having opted out (N,U & W) were subsequently all enrolled in the spring of 2013.

³² HNC/HND are post-secondary school vocational qualifications usually involving one or two years (or equivalent) of study.

3.3 Interviewing and analysing the data

This section of the chapter discusses the strategy used to analyse the qualitative interviews and explains how the interview schedule developed as the interviewing and analysis proceeded. When first considering the approach best suited for the analysis of the interviews, it was evident that there was some conflict between the wish to conduct an exploratory investigation and the need to acknowledge existing theory. Miles and Huberman (1994) stress that it is important when conducting research to ensure that there is consistency between the objectives of the research, the ontological beliefs of the researcher, and the epistemological approach adopted in the research design. Epistemological consistency is not only required for the data collection but is also integral to the analytical approach used. To that end, I gave some consideration to the method of data analysis prior to conducting the data collection. This research is an exploratory study and one of the intentions behind the use of semi-structured interviews was to allow me to adapt to emerging themes. Responding flexibly to these themes required attention to be paid to the *'regularities and pattern and causal flows'* from the beginning of data collection, but to hold *'these conclusions lightly, maintaining openness and scepticism'* (Miles & Huberman 1994 p.11).

In order to achieve this, I undertook data collection and analysis concurrently and the early analysis influenced the character of the subsequent data collection. This strategy offered some advantages and enabled me to remain open to the concepts generated by the data without feeling bound by the strictures of pre-existing theory. However, using this approach had obvious practical consequences for the development of the research - as was explained in the previous section, the dataset of participants used in the final analysis was not predetermined, but reflected output from the survey and, more pertinently, from analysis of the data generated by the pilot interviewees.

3.3.1 The influence of the pilot interviews on the interview schedule

Because of the methods used it is not possible to separate the data collection and analysis into discrete procedures. Accordingly this section of the chapter will start by discussing the theoretical premises underlying the interview questioning and how it evolved as the data

collection proceeded.. The interviews were conducted on a semi-structured basis and an interview schedule was prepared in advance. Miles and Huberman (1994) offer some arguments in favour of prior instrumentation. A pre-prepared interview schedule enables the researcher to guide the questioning when the interviewees stray from the topic and it helps eliminate superfluous information that might compromise the analysis. The use of a common interview strategy is useful for generating dependable and meaningful findings and is particularly helpful when analysing a multiple case study. However, they caution that: *‘if the important phenomena or underlying constructs are not in the instruments, they will be overlooked or misrepresented’* (Miles & Huberman 1994 p.35). With this advice in mind, and because one objective was to uncover themes that might not have been recognised to be of importance, the questions in the pilot interviews were wide-ranging and the precise order and wording of questions was not prescribed. This strategy provided me the flexibility to explore avenues of interest that opened up during the interviews. After conducting several interviews, I listened to the recordings several times to determine whether or not there were any themes emerging, particularly themes that I had not anticipated. Most of the interviews were transcribed and subsequently coded in NVivo³³ to identify communalities. Analysis allowed me to determine whether the codes had properties or dimensions - properties being multiple perspectives, and dimensions being those codes that can be presented on a continuum. This initial analysis influenced the type of questions that were asked during the subsequent interviews. The pilot interviews were a valuable learning experience and allowed for the development of a refined interview schedule that more precisely reflected the concerns of the research participants.

3.3.2 Interview themes

This section discusses the interview themes in detail and explains how, as a consequence of the ongoing analysis, the content of the interviewing developed. It therefore provides an audit of the analytical process and aims to provide insight into the ‘black box’ of qualitative analysis.

³³ NVivo is a qualitative data analysis computer software package.

3.3.2.1 Previous retirement savings experience

The interviews began with a discussion of the participants' previous retirement savings experience. All participants were asked a number of similar questions. They were asked about the circumstances under which they had joined both their current workplace pension scheme and previous schemes and they were encouraged to reflect upon their choice of contribution rate and investment fund, and the circumstances under which they had altered contribution levels. The aim of this was to develop a picture of how that experience had shaped their current retirement savings behaviour. I was interested in establishing whether the type and duration of previous retirement savings affected subsequent retirement savings contributions because the research literature indicates that financial market experience increases the probability of an employee deviating from the contribution default option (Engstrom & Westerberg 2003).

It was not clear from the literature if the type of retirement saving experience was relevant, that is, whether previous participation in a DB scheme, DC scheme, or Personal Pension Plan led to different outcomes. The role that previous DB pension membership plays in DC retirement saving decision-making has been little explored, and although there is some evidence that an extended period of past saving can create positive attitudes towards retirement saving, the efficacy of the previous savings behaviour is arguably also relevant (Wärneryd 1999). The results of the pre-interview questionnaire indicated that there was correlation between DB membership and asset-accumulation³⁴ but the interviews also revealed that DB membership was of little relevance to participants except where a spouse was also a member of a DB scheme³⁵. Those participants who had been members of DB schemes had only been so for a few years at the start of their careers and they attached little significance to the pension benefits acquired.

DB members were more likely to have savings, investments and property than DC members, but deeper investigation of the data suggested that this was linked to the age profile of the DB members, who were, on average, older than DC members.

³⁵ See Chapter 5. 2

3.3.2.2 Diversification and other means of saving for retirement

As the interviews progressed the focus of the questioning shifted away from discussing pension fund performance and scheme benefits and moved towards discussing diversification and other means of saving for retirement. This is because in the majority of cases, the participants were barely aware of how much they had accumulated in their pension scheme and generally paid little attention to the issue of fund performance. Attention generally focussed upon the length of time participants had saved into retirement schemes rather than upon final benefits. The relevance of early career insecurity and a self-awareness of developing financial maturity as individuals aged also emerged in discussions about past savings experiences. These themes are covered in some detail in Chapters 5 and 6.

The questioning aimed to discover to what extent the process of financial planning had influenced decisions to override the auto-enrolment default option. I wanted to know how individuals planned their finances and the confidence that they had in their own decision-making. Participants were asked to determine to what extent financial expectations were influencing current retirement savings behaviour: I had conjectured that some participants might be adhering to the default settings for utility maximising reasons – i.e. that they did not want to save any more, whereas others might be adhering because they had not fully reflected upon future pension needs. Although this is a subtle distinction, it is one that has been neglected in the existing research. This actually proved to be a fruitful line of enquiry and there is evidence, presented in both Chapters 4 and 5, of participants purposefully limiting pension contributions.

3.3.2.3 Sources of information that help with decision-making

I also wanted to know if participants felt that they possessed sufficient information about pensions to make decisions that they felt comfortable with. This area of investigation was prompted by the work of those researchers, headed by Lusardi, who assume that financial literacy has a bearing on retirement savings decisions (Lusardi et al 2011, Lusardi et al 2009, Lusardi & Mitchell 2009, Lusardi & Tufano 2009). Employees saving for retirement using a defined contribution scheme face the uncertainty of market performance and annuity rates.

This uncertainty makes it difficult to calculate how much to save - an adequate retirement income is not guaranteed, even for financially-literate individuals. Previous research reveals that increased complexity in the decision-making process leads to increased inertia (Akerlof & Shiller 2009). Following from this, one would certainly expect that contemplation of an exceptionally complex financial problem (such as finding an optimal retirement savings level) would lead to very high levels of inertia. Logically, individuals who deviate from the default settings must be subject to contra influences that allow them to overcome complexity-induced inertia.

The sources that savers turn to help them with these complex continuous pension decisions has received scant research attention. The literature had provided little clue to whom employees turn to for advice when deciding whether or not to deviate from workplace pension defaults. But, since the survey results showed that fewer than 5% of respondents had consulted an Independent Financial Advisor, I considered that there was a possibility that the vacuum created by a lack of professional advice might lead individuals to turn to either their workplace colleagues or their employer for guidance on automatic enrolment. Two theories pertinent to this have been highlighted in the literature review: firstly, the hypothesis that less financially-literate employees see defaults as an employer endorsement (Madrian & Shea 2001) and, secondly, the conjecture that, when faced with uncertainty, individuals seek referent behaviour (Cialdini 2008). The relevance of these two propositions to default adherence was explored during the interviews. It was achieved by questioning participants about different sources of financial advice and determining whether the advice had been acted upon. For example, asking the questions 'who do you turn to for pension advice?' and 'whose pension advice have you acted upon?' may elicit different answers.

Specifically, I wanted to know if participants discussed pensions with their colleagues and to determine how much participants knew about colleagues' retirement plans and whether they attached importance to this knowledge.³⁶ This line of questioning developed from the literature on social influence (Forgas & Williams 2002) and from Lunt & Livingston's (1991) work on the social meaning of savings behaviour and the significance of saving as opposed

³⁶ See Chapter 6.1 for details of company-wide awareness of colleagues' pension scheme participation.

to consumption. Some participants specifically mentioned the role of older charismatic and high-status colleagues as sources of advice, and some participants saw their own role as an adviser to younger colleagues as being important. These topics were explored if raised and the result and analysis of this is discussed in Chapter 6.

One way that the focus of the questioning changed as the interviews progressed was that, in the pilot interviews, several respondents reported the influence of their father in their retirement savings decisions. As a result the subsequent interviews included questions about the retirement savings behaviour of family members. The literature review had revealed little research that was specifically relevant to an understanding of the role of parents in retirement savings behaviour. Brinkman and Kvale (2014) caution that, once a researcher's attention has been drawn to a theme during an interview, there is a risk of seeking confirming evidence. I therefore endeavoured not to pre-empt discussions about parental influence but waited to see if this theme was spontaneously by participants. However, if family influences were not mentioned I did intentionally raise the topic.

3.3.3 Analysis - generating initial codes and searching for themes

Miles and Huberman (1994) recommend that analysis begins early as this is a healthy corrective to built-in blind spots and my ongoing analysis was integral to the data collection process. Analysis was conducted using a variety of coding techniques. The data was analysed in the sociological tradition, which treats data as a proxy for human experience.

Bernard (2000) notes that there are two major types of analysis for free-flowing texts such as interview transcripts³⁷ - one analysis method looks at individual words in the text, whilst the other searches for meaning in chunks of data. In this research, I predominantly analysed chunks of data, although, since the two approaches are not mutually exclusive, some use was made of the word frequency facility in NVivo to help in identifying themes. The initial open coding stage involved the organisation of the data using descriptive coding and initial pattern coding. Transcripts were coded and initial coding began with a systematic line-by-line examination of the text looking for what Bernard (2000) refers to as processes, actions, assumptions, and consequences. Richards (2005 p.92) points out that '*often, topic*

³⁷ A description of the transcription process is outlined in Appendix E.

coding dominates early in a project because it requires relatively little understanding of the situation', but it can be viewed as the first step to more interpretative work. Although ideally the coding would have been conceptual from the outset, the early coding in this study was mainly topic coding and this reflected both the stage of the research and my own lack of experience with coding. Attention was paid to the organisation of the data, and codes were clustered, using related code names to facilitate retrieval and organisation.

Having conducted several interviews, I reassessed the coding approach and reflected on the coding strategy I was using and the applicability of the codes to the original data. This formative self-assessment was an essential part of the learning experience and facilitated the development of codes that would more adequately encapsulate underlying themes. Consequently, as the initial coding progressed and my coding abilities improved, more conceptually based codes were assigned. In addition, I analysed the codes to ascertain whether there were any themes emerging. These emerging themes influenced the type of questions that were asked during the interviews, so in this way, the analysis and data collection developed in tandem. The ongoing analysis enabled me to focus attention on emerging areas as interviews progressed. I also kept a reflexive research diary which reflected on the research experience and included notes of main themes and issues arising during the data collection. Thus, in the interviews, I was able to investigate the applicability of the emergent theory and to be able to make adjustments to theoretical concepts during the course of the investigation.

3.3.3.1 Refining the coding

The transcripts from the interviews of the twenty-five participants which were used in the final analysis received additional coding refinement. This additional coding was initially axial coding which essentially involved reflecting upon commonalities between codes and the interconnecting of categories into themes. Use was then made of the constant comparative method, in which the newly-acquired interview data was compared to the existing data. In this way, the analysis developed as an iterative process. As part of the comparative method, open codes were altered as data collection and analysis progressed and the names of codes were amended to more accurately reflect underlying concepts and connections. Miles and Huberman (1994) argue that the conceptualisation and renaming of codes facilitates and is

an integral process of the analysis. I also made use of memo-ing, which involves making contemporaneous notes of the concepts that were identified as a precursor to writing up the results.

3.3.3.2 *Writing up the analysis*

Writing-up involved additional selective coding whereby categories and their interrelationships were linked in a meta-category in order to develop a narrative. The focus of the narrative developed from the embedded context of the conditions that gave rise to default adherence or deviation, the strategies used by participants to manage saving for retirement, and the consequences of these strategies. These connections were also mapped diagrammatically to assist in analysis. These groups of concepts were then used to generate the thesis findings. Dealing with text that has been broken down requires the researcher to exhibit additional methodological awareness. Bryman (2004) stresses that, when computer software has been used to assist in the coding, particular care needs to be taken to avoid losing the context of the data. In order to avoid deviating from the original source when writing up, I listened to the original interview recordings to clarify points, and I reread the interview transcripts. An overview summarising the themes in each individual case was created and this process helped ground the data and helped me ensure that the themes were an accurate representation of participants' experience. This concrete approach enabled me to remain close to the narrative of the data.

A multitude of themes were uncovered during the investigation and determining whether all these themes had sufficient supporting evidence to justify conclusions required some reflection. Whereas some concepts were apparent in all interviews (for example, the influence of the employer discussed in Chapter 6), others were limited to a subset of participants. To illustrate this point, the concept of financial independence, which is discussed in Chapter 5.2.1, is primarily only of relevance to the divorced women in the sample. Thus, saturation (i.e. when subsequent interviews ceased producing new or relevant data) was achieved in relation to the theme of employer influence, but, because of a lack of requisite examples, saturation was not achieved for the theme of financial independence. Where this is the case, in presentation of analysis in Chapters 4-7 a caveat to the conclusions drawn is included.

Selecting which themes to incorporate into the narrative also required some reflection. Inclusion and exclusion is a subjective process that reflects the ontological position of the researcher. As noted in Chapter 3, the ontological basis for this research is critical realism. Critical realism views human agency as being made possible by social structures but considers the individuals that inhabit these social structures capable of reflecting upon and changing the actions that created those structures in the first instance (Archer et al 2013). A different reading of the data from an alternative ontological perspective - for example, from a constructivist approach - would place emphasis upon different areas of the data and might therefore lead to different reporting.

3.4 Researcher's reflections

This final section of Chapter 3 includes the researcher's reflections on the research process. The first few paragraphs discuss issues that arose from the questionnaire. The subsequent paragraphs discuss issues that arose from the interviews themselves.

The on-line survey included the question *'From whom did you seek advice before deciding to contribute to the Pension Plan?* There was no reason to doubt the reliability of the specific wording used in the survey. Also, given the previous use of this type of 'source of information' question in survey research (Atkinson & Messy 2011), there was little reason to doubt the validity of the approach - the question appears to measure advice at the point of enrolment. However, the interviews revealed that much of the pension advice that prompted changes in default contribution levels was received after enrolment. These findings raise questions concerning the content validity of the question (and, by extension, any pension research that bases its conclusion upon sources of advice at enrolment). It is clear that default deviation is a complex and dynamic phenomenon and that focusing on advice at the point of pension enrolment does not necessarily yield an accurate picture of the motivation behind behaviour.

The survey also included the question *'If I had a choice of receiving £1,000 today or £1,100 in one year's time I would choose...'*, I had assumed that a preference for a smaller cash sum in the present would reveal those individuals who were less willing to save for retirement – this is because delayed gratification has been linked to savings behaviour (Webley, Nyhus

2006). However, as the exchange below illustrates, in at least one case, the preference reflected the individual's confidence in their investment skills and their attitude to money rather than their time preferences

LRR - You answered that you would prefer the £1000 today

L - I could do a more with it now. There is every chance that you could throw that into the stock market and you could make that ten per cent. You could make that ten per cent in three days. It's not that I would spend it. Your rate of return is shockingly poor! [laughs]

On reflection, I considered that it was not possible to fully capture time preference using only one or two questions in a survey. As the interviews proceeded, my view of the usefulness of qualitative data changed. I had entered the PhD programme somewhat sceptical of the value of qualitative interviewing and with a positivist mind-set but this view changed as I conducted the interviews. During the interviews, there were many examples of contradictions between what the participants were saying and how they had answered the survey questions. For example, one of the divorced women classified herself as 'single' whilst another, who was now in a new relationship, referred to herself as 'divorced'. It is generally assumed that errors occur in data sets but finding them with such frequency undermined my confidence in the quantitative data. The qualitative data, on the other hand, proved to be a rich source of information. Although I still harbour some reservations about the use that is made of qualitative data by non-academic commentators, I have become much more appreciative of the results it can produce in a well-designed and perceptive research study.

Prior to conducting the interviews, I had obtained training in qualitative interview techniques and was aware of the advantages of this form of data collection. However, one needs to be aware when using such methods that social preconceptions, from both researcher and interviewee, can influence the development of the interview. Although I was alert to the possibility that I might take social cues to make presumptions about participants, I had not adequately considered that interviewees might also make assumptions about me - perhaps owing to my age and attire, some of the participants

presumed my financial expertise and asked for clarification on matters of pension regulation or the conditions of their occupational scheme. Although I was able to answer these questions, some judgement was required to ensure that my responses did not interfere with the data collection.

During the research process, I also encountered several ethical dilemmas. The issue of trust is one that has been raised frequently in relation to savings behaviour, particularly with reference to previous savings scandals. I therefore asked participants whether they trusted the pension scheme administrators. Some of the participants reacted to this line of questioning by expressing concern along the lines of '*Should I not?*' [S]. I was concerned about the ethical issues surrounding this question since, arguably, raising doubts in participants' minds could constitute harm. But, I continued to explore the theme of trust because I believed it to be of some relevance, and so I took care to exercise caution regarding the timing and wording of such questioning.

Another ethical dilemma lay in gauging my response to some of the participants' sub-optimal retirement savings behaviour, particularly if this had been based upon a misinterpretation of the workplace scheme rules. The approach that I adopted was to direct participants towards the HR department of their employer for advice. For instance, there was a prevalent belief that small pension entitlements from earlier careers were somehow 'lost', although, in actual fact lost pension are relatively easily located.

After the interviews I emailed a couple of the participants and directed them to the Pension Tracing Service. I was also asked by a few of the participants to connect to them on a professional social network site (LinkedIn). I accepted these requests even though it raised issues of confidentiality (there was a small chance that it would alert connected individuals to the participation of the other connected individuals in the study). The issue of confidentiality and the use of social networks in research is not one of which I was aware of prior to the study; it is an area that merits further investigation.

The following chapters present the results and analysis of the research. Prior to conducting the interviews, I also gathered some background information about the employer, initially from the corporate web site. Information gathering continued throughout the research

process using a multi-faceted approach involving documentary analysis and ethnographic research at the employer's places of business. Sources include the HR personnel, reception staff at the various research sites, an employer review site, and the participants themselves. This collated information helped to build up a picture of the interview participants' working environment. All the background data is presented in Appendix B but it may usefully be read at this stage, prior to a consideration of the interview results and analysis.

4 Financial Planning

The following chapters present and discuss the research findings from the qualitative interviews with twenty-five participants. This chapter discusses how the participants approached financial planning and saving for retirement and the findings are presented under the broad themes of affordability, balance, and diversification. The brief opening section provides some insight into the affordability issues raised by participants. The second section discusses how participants prioritise saving and spending, and includes evidence relating to property ownership and attitudes to debt. The final section discusses diversification, employer share schemes, and attitudes to risk. The presentation of the results is followed by a discussion of the most significant findings.

The analysis concludes that participants viewed it as both necessary and expected to save for retirement and, in many cases, wished to be seen to be doing so. The main driver of pension scheme membership appeared to be a desire to ‘behave correctly’. However, although the majority of participants attached importance to membership of the workplace pension scheme, analysis revealed that they also attached considerable importance to achieving a balance between retirement saving and other expenditure. Achieving this balance was the main driver behind contribution rates. Life experiences, such as holidays and time spent with family members were often prioritised over saving into the pension scheme.

Participants also preferred to diversify their savings into property and other long term investments rather than increase their pension contributions. Their diversification strategies were influenced by the availability and design of financial vehicles provided by the employer – in particular, employer-sponsored share saving schemes. These schemes influenced the type of investments that were considered as suitable long-term savings vehicles; they diverted contributions from the workplace pension scheme and thus impacted on default adherence.

Employer-sponsored share saving schemes also appeared to alter participants’ perception of investment risk. Previous investigation into the role of the employer in retirement savings behaviour has suggested that employers’ matching contributions have an effect on default

adherence (Huberman et al. 2007). This current PhD research adds to that body of knowledge by revealing that the relationship between employees' savings behaviour and the actions of the employer extends beyond the pension scheme architecture, and that the influence of the employer permeates the entire decision-making process.

4.1 Affordability

A comprehensive description of the occupational scheme architecture is detailed in Appendix B but, to summarise, employees are automatically enrolled into the pension scheme when they sign their employment contract. A monthly employee contribution of 3% of salary is taken from the gross salary and invested into managed funds that have been pre-selected by the employer. The employer adds a matching contribution equivalent to 3% of gross salary into the pension fund. Although the default contribution into the pension scheme is 3%, employees are able to select any contribution rate above this and the employer will match contributions up to 6% - therefore, employees can contribute 4%, 5% or 6% and receive an equivalent employer's match and indeed can contribute more than 6%. Members receive an annual statement directly from the pension provider that includes a summary of contributions, current fund values, and the projected income that the funds will generate upon retirement. These events occur irrespective of the employees' wishes or needs. Employees are apprised of the terms and conditions of the pension scheme when joining the company and most attend an 'induction' seminar which includes a presentation about the pension scheme.³⁸ Alterations to the default - for example, opting out or increasing contributions can be done at any time but needs to be initiated by the employee.

The participants in this study all earned above the national average and it was hypothesised that higher income would engender some flexibility in expenditure. It was assumed that the decisions participants made about their level of contribution into the workplace pension were likely to reflect priorities rather than reflect absolute levels of affordability. Although none of the participants had expressed '*difficulty keeping up with bills*', in the pre-interview questionnaire, the interviews revealed that there was considerable variation in their

³⁸ The relevance of employer-sponsored financial planning was highlighted in the literature review (Lusardi Keller & Keller 2009, Bernheim & Garrett 2003) and this point is discussed in Chapter 6.

financial circumstances. Participants expressed views ranging from those who *don't worry about money at all* [L], to those for whom *everything is still difficult* [Y]. Lack of money was mentioned as an explanation for failure to contribute to pension schemes in the past. Affordability was generally related to periods early in careers prior to individuals having established patterns of pension savings but the accounts of historic affordability were intertwined with other explanations, primarily related to age and the stage that individuals were at in their lives. For example, a couple of participants mentioned marriage breakdown as an explanation for lack of pension saving in the past. Three participants cited affordability issues that were related to childcare costs as an explanation for why they had begun contributing at 3% rather than 6%. One participant mentioned temporarily reducing contributions because of affordability issues due to consumer debts.

Accurate assessment of participants' absolute disposable income was not possible but there is evidence that, at the time of the interviews, ongoing income constraints were linked to how participants prioritised both earnings and spending. The evidence indicates that although, as Ring (2005) suggests, a baseline of economic security is linked to willingness to save for retirement, how participants felt about affordability was a key determinant of how much they allocated to the occupational pension scheme. When assessing the affordability of pension contributions, participants were motivated to avoid perceived loss of income and they utilised a number of strategies to achieve this end. One strategy that was repeatedly mentioned was the practice of diverting earnings into savings products prior to receipt of net salary. For example, some participants noted that enrolling in a pension scheme at the start of an employment contract helped them save for retirement because, although new employees knew what the value of their gross salary would be, they were not always aware of the implied net salary. Allocating salary to the pension scheme, prior to becoming habituated to a higher income, meant that pension contributions were not perceived as a reduction in salary. The deductions were simply considered as money that individuals had not possessed prior to changing employer. The underlying explanation for this behaviour is most likely to be loss aversion. (Individuals attach greater importance to changes relative to reference points than to static states (Kahneman & Tversky 1979). Increases and decreases in salary can be considered as having asymmetric effects, with losses having a greater psychological impact than gains.

E - My perspective - I start with the company - you don't miss what you don't have, so I would have put that away.

Several participants also referred to having committed to increased savings when they had received a pay rise. This strategy could be justified because the pay rise cancelled out the cost of the contributions and *then you are not any worse off [G]*. A few participants had increased contributions more than once, as one employee, who was saving 8% and who had made several increases to her pension, explained:

H - This obviously I've always done it at pay rise time because then you don't miss it.

But the analysis also suggests that some individuals attached little value to gains from salary increases. There was a sense that beyond a certain income level, material consumption added little satisfaction

A - Well its money that I would probably have spent on rubbish.

4.2 The balance between spending and saving

A recurrent theme that emerged from the interviews was that saving for retirement was viewed as necessary: participants frequently used terms such as 'you have to', 'you need to', 'you ought to'. Many interviewees stressed the importance of 'doing something' about preparing financially for the future and it was not unusual for participants to claim that they would have joined the pension scheme even in the absence of automatic enrolment. However, although the findings show that many of the participants expressed the view that saving for retirement was important, the emphasis was often upon the 'act of saving' rather than upon actively reflecting on the financial situation they would likely find themselves in upon retirement. Scheme membership was often viewed in terms of doing something rather than as income replacement for retirement. Although different social groups have different savings goals (Wärneryd 1999), the analysis of the interviews suggests that, for this group of individuals, one of the objectives of membership was to enable them to be portrayed as behaving 'correctly'.

Some participants conveyed the sense that by 'ticking the box' and opting in they were

absolved from thinking about pensions in the near future. This belief was most often expressed by those women who did not have any children and who were saving at the 3% default level.³⁹ As the extract below illustrates, being automatically enrolled 'allowed' the individual to defer the problem of retirement planning:

I - I know it is nowhere near enough to be comfortable on a month. But yes, you just think, tick that box, I am paying into a pension, then I'm sorted.

Some of the participants portrayed themselves as 'live for the present' individuals who, on the surface, appeared to be unconcerned about saving for retirement. However, although possessing a 'present day' ⁴⁰orientation was negatively correlated with the likelihood that the individual would have reflected on the adequacy of contributions, it did not inevitably conflict with scheme membership. There were examples of participants simultaneously expressing the opinion that the future was low priority but that membership of the pension scheme was important.

G - I mean, my, very much my attitude to life is, life is too short not to kind of have fun and enjoy life while you can and if you spend your whole time thinking, no, I've got to do this for the future. I can't do this now because I need to put as much as I possibly can towards retirement.

G - It's a big thing for me that the scheme is there. And if I hadn't been automatically enrolled, yes, I would have ticked the box, is a, yes, I want to be in it. Just to make sure in my mind that box was ticked. And then I don't have to think about it, and when my mother goes, 'do you have a pension?' I can go 'yes I do, Yes Mummy, I have a pension'.

The explanation for these contrasting attitudes may be that participants perceived that there were financial and social costs to deferring participation in the scheme. H was not alone in justifying her membership of the scheme with reference to the opinion of others,

³⁹ This suggests that there is a link between family circumstances and the extent to which one thinks about the future and this point is discussed in depth in Chapter 5.4.3

⁴⁰ Present day orientation was originally identified by two questions in the 'Saving for Retirement Questionnaire, although note the caveats discussed in the Researchers Reflections in Chapter 3.

and this was usually in relation to parents or to work colleagues.⁴¹

H – However, I’ve not told either of my parents that I am not in the final salary pension scheme. No, no, no, no, because they would kill me! They would kill me dead. [laughs]

Joining the scheme enabled participants to benefit from the employer’s contribution but it also afforded individuals the opportunity to avoid the social approbation of having done nothing about saving for retirement. As Mauss (1914) noted a century ago, money is essentially a social fact, and for these participants the earmarking of income into a pension was clearly a social process. The wish to ‘put down a marker’ for retirement was not restricted to those participants who were saving at the minimum default - even those apparently more proactive individuals who had increased their contributions to 6% to take full advantage of the employer’s match rarely reflected upon the likely income that their higher contributions would generate and instead just stressed the importance of membership.

P - I know that it's there, I know it's happening, I know that when the time comes I know there will be something there for me, which is probably the most important.

In addition, for several participants, it was important that in the future they could look back on their current savings behaviour and justify their actions. This point, although not always explicitly stated, appear to explain why a few had increased their contributions to 6%.

Q - My pension is not my concern. I think that I’m doing what I need to do at a good level. There will be others like me as well, so we will all sink together [laughs]. It won’t just be me on my own. I never contributed! That’s the thing, so all I can do is try and save for it like everyone else and see what mess we are in then.

I’m confident I’ve done what I need to do. Whatever happens in the future it won’t be my fault. I’ve done what I needed to do and if there is a great national pensions scandal or the financial system collapses or whatever I’ll be in the same boat as

⁴¹ The importance of parents in establishing retirement savings norms is discussed in Chapter 5.3. The importance of older colleagues is discussed in Chapter 6.1

everyone else. Do you see what I am getting at from there? [Speaks firmly] I've done what I needed to do and whatever happens, happens after that!

Increasing contributions beyond the minimum default was also seen as behaviour that correlated with maturity. For example, most participants expressed the opinion the 3% default rate was suitable for younger employees and that, by implication, older employees should contribute more than the minimum default

F - I think 3% is probably good for people just starting out because it gives them something...

A - it's probably a different situation for somebody starting in the company's who's 40 or 50 than somebody who's younger.

Thus, some participants conveyed the impression that they were contributing at the 6% rate because they felt that it was expected behaviour for individuals of their age and social status.⁴² These findings add credence to those theorists who suggest that savings behaviour accrues specific social meaning (Lunt & Livingstone 1991).

The data reveals that all participants attached considerable importance to achieving a balance between retirement saving and other expenditure. Although rarely explicitly stated, all participants appear to believe that, given current income, it is possible to save *too much* for retirement. Where this belief originated from, and how participants quantified what is meant by *too much*, differed according to circumstances.

V - that is really good as long as you don't really notice it, but if you start 'oh I can't do this because I am putting my money in my pension,' then... You need to strike a balance.

There was little critical reflection on income requirements in retirement and little awareness of whether current saving rates were adequate. Although it was rare for participants to view the 3% level as being adequate for their own circumstances, and although most anticipated increasing their retirement savings later in life, few had endeavoured to calculate the likely

⁴² See Chapter 5.2 and Chapter 6.1 for further discussion on the relevance of age.

income that the minimum contribution would provide. Most seemed to be basing their assumption that 3% would be insufficient upon the fact that 3% *felt* like a low number. So although participants believed that saving for retirement was important, they made a distinction between the act of saving and the degree of saving. Once they had put down a 'marker' for retirement, the extent to which additional resources were allocated to retirement related to where future income security fitted into their priorities. At their current stage in life, participants had higher priorities than securing a generous retirement income, and these generally fell into the following broad areas: providing for children, experiencing life, home ownership, and debt reduction.

For those participants with children, time spent with the family was perceived as more important than long-term saving and this priority impacted on pension contributions. Although there was evidence that having dependants acts as a driver for both thinking about pension scheme enrolment and contribution increases⁴³, having children also had an opposing influence: some of the participants attached considerable importance to spending time with their children and, in order to achieve this, they were either working part-time or had done so in the past. One consequence of part-time work for these relatively high-earning individuals was that it reduced disposable income and lack of surplus income was then offered as an explanation for low savings rates because it *takes away from the amount I can save* [Y]. Furthermore, working part-time also reduces the base salary level upon which employer pension contributions are calculated. The evidence is clear that the women with children were aware of the fact that working part-time led to a reduced pension. There was some indication (although the sample size is small) that this awareness could also be an impetus for overcoming minimum defaults.

R - Because I was conscious that I was working only three days a week as well, and I knew that my earnings weren't very high, there wasn't a massive amount going into my pension, so I needed to put in as much as I could afford at the time.

The data suggests that pension saving was a lower priority than the desire not to miss out on opportunities that could not be repeated of which spending time with one's children is

⁴³ See Chapter 5.1

one example. For most participants retirement seemed a distant prospect and several reflected on the fact that they *might never pick up this pension* [L]. The lack of certainty over receiving pension benefits did not appear to impede participants enrolling in the retirement scheme, but it was being used as justification for not allocating additional resources to the future, and it might be an explanation for why some participants emphasised a balance between current experiences and future financial security.⁴⁴

E - I have chosen not to put more into the pension because I sort of think to myself well there is also the balance between living life just now as well.

The participants with the fewest family responsibilities were generally those most in favour of spending on life experiences rather than saving for retirement. For example, one participant, discussing her involvement in an expensive sport, noted;

G - So my money is committed elsewhere. I suppose it's a decision that you take. You kind of go, right, actually, I'd rather spend the actual money doing that than putting it into this.

The data suggests that, particularly for individuals who were already saving something for retirement, allocating spending to present-day consumption was a conscious decision that reflected priorities and an awareness that current experiences might not be available in the future. The majority of participants dealt with the conflict between experiencing life now and avoiding regret in the future at not having saved for retirement in a similar manner: they deferred increasing pension contributions until the future but their funding strategy involved *mentally* allocating potential pay rises. Integral to this approach was the assumption that employees would, in fact, be awarded pay rises in the future so this strategy was dependent upon the future financial strength of the employer, and to some extent upon the confidence of the individual to develop their career. The prevalence of this assumption may have been linked to the stage that respondents were in their careers, and also to the fact that the employer had, in recent years, awarded annual salary increases.⁴⁵

⁴⁴ See Chapter 5.3.1 on the salience of premature death and precautionary saving.

⁴⁵ The role of the employer and security of earnings is discussed in Chapter 6.

4.2.1 Property ownership

A preference for balance between the present and the future did not result in participants rejecting saving altogether but the data suggests that it may have shifted the balance towards savings that could provide both immediate utility and be of use in retirement. One such dual purpose vehicle was property ownership. All of the participants either owned their own homes or intended doing so in the future. Those few participants who did not yet own a property attached greater priority to saving for a deposit than to increasing contributions into the workplace pension scheme. Indeed, one participant had opted out of the pension scheme altogether and was saving most of his income for a house deposit: he viewed property ownership as the prime component in his retirement strategy and aimed to buy a large house and later to sell the property to release capital. This participant offered a number of explanations for adopting this strategy: he lived in an area of historic high property growth; his father had lost money in a personal pension plan; and he was considering emigrating. The combination of these influences had induced him to concentrate on building up assets that were under his control, rather than locked away until he was in his sixties. It was observed in Chapter 3 that it is difficult, using survey data alone, to research individuals whose savings behaviour is similar but whose motivations are different – for example, differentiating between those participants who do not save into retirement schemes because they are naïve and those who purposely do not want to save (Sourdin 2008). The evidence from this particular participant demonstrates that it cannot be assumed that non-saving, or low contributions into an occupational pension scheme, are an indication of lack of preparedness for retirement.

However, although three other participants also made reference to the potential of using their own home as a way of providing capital in retirement, downsizing did not feature as a main strategy for these individuals. There is some indication that this was because participants were aware that there might be emotional difficulties in realising the economic potential of one's home. This finding provides support for Clark et al.'s (2012 p.1263) point that there is *considerable complexity in people attitudes to owner occupied housing as a fungible financial asset*.

H - But the thing is, I will get to 60 or 65 and I won't want to move. 'This is my house that I stayed in for 35 years and raised my children and seen my grandchildren in and I do not want to sell it'.

Owning a property that was mortgaged appeared to have an impact on the extent to which participants deviated from the minimum default contribution rate. It could be suggested that utility maximising behaviour such as debt reduction (i.e. paying off current loans) is a reason for opting out of retirement savings schemes. There is evidence from the interviews that those participants with mortgages prioritised debt reduction over increased pension saving. Mortgage debt reduction was a key financial strategy; the focus on reducing mortgage debt was frequently mentioned by participants and this often had priority over other investments. Many participants talked about their mortgage debt in the context of retirement. Owning one's own house debt-free was viewed as an integral part of managing expenses in retirement and this seemed to be indicative of a general understanding of income constraints in old age. The conversations with the homeowners revealed that there was an emotional response to debt: several expressed pride in the success they were having in reducing their mortgage, and, although this pride is not always obvious in the terminology interviewees used, it was clear from the tone of voice.

H - I do have it sorted that the mortgage is paid off in six years' time. It will be paid off in six years. I will be forty six.

The data offers not only examples of an emotional response to debt, and the impact that mortgages could have on retirement savings behaviour, but also suggests that it is debt levels and not absolute asset levels that are important. Although participants had similar incomes they lived in areas where there were differences in average house prices, but references to indebtedness were made in absolute terms and not as a percentage of property equity. This would suggest that the symbolism, or the social fact of being debt-free, was of higher priority than asset accumulation.

Looking back over the previous sections we see that a number of broad themes have emerged. Pension scheme enrolment has social significance and participants stressed the importance of membership of the scheme but appeared to attach little importance to the

current value of their pension investments. Participants attached importance to being members of the occupational pension scheme but once that need had been satisfied, they attached greater worth to experiencing life and providing for children⁴⁶. All of those individuals with mortgages had a preference for mortgage free property ownership, and this was seen as a means of reducing costs in later life.

4.3 Diversification

This section of the chapter discusses how participants attempted to acquire multiple sources of retirement income and reveals why participants' approaches to diversification might have an effect on default adherence. Diversification, as applied to investment strategy, is a higher-level cognitive skill that requires not only numeracy but judgement and knowledge. The original research interest in the topic was not so much in the interviewees' understanding of the concept of diversification but whether their understanding translated into deviation from the pension scheme default investment funds. The financial literacy section of the on-line questionnaire included a question on diversification⁴⁷ and an examination of the participants' individual results indicated that the majority of them understood the concept. However, although there was very little default fund deviation upon which to base the analysis⁴⁸, the issue of diversification was manifestly apparent in a more general sense: there was clear evidence of respondents' intention to spread their investments across different savings vehicles with the aim of providing multiple sources of income in retirement. This section discusses the motivation behind the desire for diversification and the strategies that participants used to achieve their aims.

The principle driver behind diversifying savings was participants' lack of confidence that, on its own, their occupational pension would provide a satisfactory income in retirement. Although few had calculated their required retirement income, there was a general belief that, in order to have a comfortable retirement, additional provision needed to be made. This view was also held by those who were saving little for retirement or who had over-

⁴⁶ These themes will be further discussed in the next chapter within the context of life course and family relationships.

⁴⁷ *'It is usually possible to reduce the risk of investing in the stock market by buying a wide range of stocks and shares: True or False'*

⁴⁸ An explanation for the lack of investment fund default deviation is provided in Chapter 6.3.

estimated the likely income that would be generated from their pension funds. The lack of confidence stemmed from uncertainty about the future. Although assumptions about life trajectories were generally optimistic,⁴⁹ the difficulty and futility in predicting the future was a recurring theme during these conversations. Trying to think too much about pensions was viewed as *a bit of a fool's errand [W]*. Participants made reference to societal changes and technological advances that had occurred over recent years. Increases in life expectancy and changing retirement ages added an additional layer of uncertainty and reinforced the belief that it was not possible to predict the future with any degree of reliability.

Q - I don't know when I will retire. I don't know when I will have to retire. I've got, hopefully, quite a long way to go before getting to that sort of stage in life and who knows what will happen in, what, another twenty five years? Think what has happened in the last twenty-five years! So God alone knows what will happen.

One feature of the future uncertainty was that participants did not automatically assume that they would be entitled to the Basic State Pension (BSP) when they retired. There was considerable doubt as to the viability of the BSP and the majority of participants felt that it might not be available to them if eligibility were means-tested. Several participants doubted that there would even be a state pension. In addition, there was a perception that the BSP, even if it were to be paid, would not be generous. References to state-funded provision were often made when referring to individuals that the participants knew who had little other pension provision, or who were experiencing poverty in retirement.

The perception of uncertain state provision was a driving force behind increasing contributions from 3% to 6% and behind seeking alternative investment vehicles as participants sought to substitute the perceived shortfall with their own savings. In addition, participants believed that DC workplace pension schemes would not provide as generous a retirement income as DB schemes. Notwithstanding that there was a general belief that the *new pension isn't as good [M]*, there was little critical reflection on the extent to which the

⁴⁹ Most participants expected to increase pension contributions in the future and there was often the assumption that, because of future career progression, they would be financially able to do so. This point is expanded upon in Chapter 6.

two types of scheme differed. Although all of the participants express a wish to save for the future, some were troubled by the uncertainty inherent in defined contribution schemes.

M - Because no-one can say to you, this is the definite benefit that will be delivered at the end of it.

Quantitative analysis by Webb et al. (2014) suggests that uncertainty is a '*highly substantive determinant of pension confusion*' and the findings from this current study do appear to offer support for that premise. Moreover, the data suggests that feeling insecure about the future prospects for one's pension and feeling helpless in the face of uncertainty had an impact on responses to default settings because, when participants viewed the final outcome of the DC scheme as being very uncertain, they found it difficult to determine an appropriate contribution level.⁵⁰ The combination of uncertainty and complexity appeared to deter some individuals from changing their default contribution rates.

M - I think you should be in. Yes, you've got to have something towards it. I just don't... Because no-one can say to you, this is the definite benefit that will be delivered at the end of it, I think you can't, and they can't even show you that if you continue at 6%, or 3%, 12% that at the end of your time this is what the benefit that you will derive from it. I think it's difficult then to say that is what I am going to go for.

Although participants paid little detailed attention to their pension fund valuations there was some evidence that they had noted the low current value on their pension statement when making assumptions about the adequacy of the occupational pension scheme.

I - The last statement ... it wasn't a lot of money a month and I thought, actually that is something I need to address because if there is not a state pension by the time I retire, or I am not eligible for it, that's nothing to live on basically.

When considering supplementary savings: there was a clear preference for contributing at least up to the maximum employer match level of 6%. The reasons that participants gave for

⁵⁰ See D's comments in Chapter 6.1 for the impact that this uncertainty had her ability to advise younger colleagues on appropriate contribution levels.

contributing at 6% (rather than 3%) were always based on economic rationale. They understood that to contribute at 6% meant they were '*maximising their benefits with the company [C]*', and that not to contribute at that level meant that they would *lose that extra portion, 3% of income [Y]*. But rather than significantly increase pension contributions most participants made additional savings using alternative financial vehicles. The data suggests that the explanation for some individuals not saving more than 6% most likely lies in the existence of alternative employer-provisioned savings vehicles. The employer provides two share savings schemes - the Share Save and the Share Investment Plan (SIP). Although the interview questions were primarily focused upon saving into the pension scheme, both the Share Save Scheme and the SIP featured heavily in participants' responses and are integral to developing an understanding of the participants' commitment to the occupational pension scheme.

Details of the Share Save Scheme and SIP are included in Appendix B, but to summarise, the Share Save is a share option scheme in which employees are offered the right to buy shares in their employer at a fixed price in the future. Employees can save up to £250 a month out of their net pay. After five years the contract matures and they are able to either exercise their option to buy the shares, or to have these savings returned in cash with interest. The Share Save was popular with employees but, although several of the participants referred to the Share Save, it does not seem to feature as a key retirement savings vehicle. The benefit of the scheme was that it could be used as a commitment device to reduce current consumption but, because the contributions were held in cash until maturity, Share Save savings were viewed as being for near-term special occasions rather than for pension planning.

The SIP was more favoured by participants looking to save for the medium to long term. The SIP is a matching share investment scheme whereby the employer matches two shares for every one that the employee buys, up to a maximum of six shares a month. SIP contributions are deducted from gross salary and, at the time of the interviews, an annual outlay of about £540 would have gained the employee shares worth about £1620. The employer's match is more generous for the SIP than for the pension scheme - two for one versus one for one. Furthermore, a SIP has liquidity advantages because it can be cashed in

at any time (subject to a tax liability) but is completely free from any tax liability after five years. There was a positive correlation between deviating from the minimum default in the pension and saving into the SIP although the explanation for this behaviour is not clear. Those participants saving the most into the pension scheme were also saving into the SIP and the SIP featured prominently in their retirement planning.

For some participants, saving into the SIP was *a no brainer* [D]. In other words, it required little effort or thought, and there was a prevalent belief that the SIP offered something for nothing.

O - It's a no brainer. You are better off doing that than doing the pension. If you are in the pension and you are not in the Share Incentive Plan then you are mad. If you only have enough money to do one, do the Share Incentive Plan because you could actually use that as a pension pot.

If similar logic were being applied by the other participants, one would see higher participation rates in the SIP than in the pension scheme, but this was clearly not the case. There could be several underlying reasons for this, including information failure or a preference for saving for retirement through a vehicle with restricted access, but this thesis contends that one motivation is that, whereas saving into the SIP satisfied investment criteria, saving into a pension also satisfied social expectations. As discussed in section 5:2, most participants felt that they *ought* to be saving into a pension scheme, whereas SIPs, on the other hand, represented discretionary saving.

There was some evidence that participants preferred pensions because they could be used as commitment devices to deliberately place constraints on access to savings. There was some tension between the wish to use commitment devices to constrain current spending and the requirement to be able to access savings in the future. Once the need to 'lay down a marker' for retirement had been satisfied, there was a preference for savings vehicles that offered the flexibility to satisfy both shorter term and longer term needs. Many respondents referred to achieving balance of investments in relation to a balanced life and implied that savings vehicles should provide some flexibility.

For a minority of savers, accessibility was a motivation for diverting savings into SIPs and away from the pension scheme. Two of the interviewees who were not contributing to the workplace pension scheme at the time of the survey were contributing the maximum into the SIP and both indicated that they had prioritised SIP investments over pension contributions. There was little to differentiate these individuals from most of the other participants, although both had joined the company after the DB scheme was closed to new members but prior to the introduction of automatic enrolment, and both could be described as very financially literate. The first individual (X) had been deterred by the liquidity constraints attached to the pension scheme and preferred the flexibility that the SIP offered because it more adequately met his immediate need of raising funds for a property deposit.

These views were shared by the second individual (U). He was one of the very few participants who had actually calculated how much he would need in retirement. He had also calculated that after ten years' employment he would qualify for a long-service additional employer contribution (representing a further 6% of salary) which shifted the balance of the calculation in favour of joining the pension scheme. This example offers evidence that, for a minority of individuals, opting out of pension schemes could stem from a rational calculation of financial objectives rather than be a consequence of antipathy to saving for retirement.

Much of the commentary on retirement saving has an orientation that problematizes non-pension-scheme membership (Pensions Commission 2006) and some of the literature links opting out to low asset accumulation and to 'problems' such as low income, marital breakdown and lack of financial literacy. It had been assumed prior to conducting these interviews that those employees who were not members of the workplace pension scheme would not be saving for retirement, or would be asset poor, but the deeper understanding gained from this research offers the insight that, for above-average earners, these assumptions should not be made.

There was additional evidence to support the view that reflection upon objectives impacted savings strategies. It was noted that the employees with the self-reported highest savings rates were amongst the group who had joined the company in the period between the closure of the DB scheme and the introduction of automatic enrolment into the DC scheme.

Rather than being automatically enrolled, these employees had consciously chosen when to save for retirement and how to enact their retirement strategy. Weisbenner (2002) posits that awareness itself is insufficient to increase savings rates and that it is the process of actively having to make a choice about investments that is important. He maintains that active investment has an educational role and that this itself encourages saving. Extrapolating from Weisbenner's viewpoint one could hypothesise that, in the absence of automatic enrolment, having to consciously reflect and put into practice their long-term investment strategy directly led to some participants' higher savings rates. There is some suggestion from US panel data (which may support Weisbenner's view) to show that having to make an investment choice increases pension contribution rates (Cunningham & Engelhardt 2002; Papke 2004). Although the results from the current study are not conclusive, the analysis does lead one to question whether the passivity inherent in automatic enrolment is necessarily beneficial for highly financially literate individuals.

4.3.1 Risk

The flexibility of the SIP enabled it to be used for meeting short-term objectives, but it also meant that it could be used as a component of retirement planning. Several participants had invested in the SIP every year over a number of years and had thereby accumulated fairly large holdings in their employer's shares. Some of the participants in the study made the point that they intended holding these shares until close to retirement. The decision to invest to obtain both the employer's matching contribution and tax relief, and the decision to retain a large holding in one's employer's shares, are two separate investment decisions but some of the participants appeared to be conflating the two. This meant that many participants were heavily dependent upon the financial well-being of their employer, and were open to the risk that the failure of the employer would result not only in the loss of employment but also the loss of savings. A few of the participants who had a considerable amount saved in the share schemes spoke about the risk of *having all my eggs in that one basket [H]*, but even when participants recognised the link between their savings and the financial strength of their employer, they did not seem overly concerned about it. For example, one participant spoke about his father-in-law's experience when his employer failed, but even this financially literate participant appeared to under-estimate the risk attached to his own shareholding.

U - He had £125,000 those days in shares which were worth a penny each by the end of it, so it is in the back of my mind.

The assumption that the company share price would continue to grow was prevalent and was, perhaps, a reflection of the fact that the employer encouraged awareness of the financial strength of the company through its corporate media. The only participant contributing 6% into the pension but not saving into the SIP was a relatively new employee and he offered poor share performance in previous schemes as an explanation for his dislike of share save schemes. One infers that the confidence that the employees had in the financial strength of their employer encouraged them to invest in their employer's shares, but in addition, comments such as *I've not have to worry about losing my job [O]* suggest that job insecurity was hardly an issue for these participants⁵¹. The risks of investing in a single equity are considerable: the shares are vulnerable to systemic risk, non-systemic (industry) risk and idiosyncratic risk (management failure) but, not only were participants employed in an expanding industry (negating the non-systemic risk), but they also worked alongside colleagues who had *forty years plus service [Q]*. This sense of continuity added to the perception that they were working for a 'good' employer and reduced the perception of idiosyncratic risk.

4.4 Discussion

The objective of the line of questioning that produced the findings in this chapter was to examine the interaction between the participants' savings objectives, their savings strategies, and the savings vehicles at their disposal. Analysis of the data leads to the following conclusions. Firstly, amongst this group of individuals, pension contribution levels were rarely based on absolute affordability criteria. Participants attached importance to achieving a balance between current expenditure, short term savings and saving for retirement. Experiencing life's opportunities was perceived as important. For some of the participants with children, this involved substituting earnings for family time. Those without children tended to prioritise spending over saving. Secondly, participants revealed a

⁵¹ See Chapter 6.2 for the relevance of job security to pension contributions.

hierarchy of investment strategies, with the desire for housing security and debt reduction preferred to pension investment, although in some cases, investing in housing was viewed as a component of retirement saving. In many cases, individuals expressed a preference for building up housing assets for retirement rather than investing in the employer-sponsored pension scheme. The interviews revealed emotional responses to indebtedness and awareness of loss aversion, and provided evidence of the use of forward planning and commitment devices to manage saving.

The data also revealed that some of the interview participants were highly financially literate and were utilising a variety of complex investment vehicles to provide for income in retirement. Although the importance of the Share Investment Plan had not been anticipated when initially designing the research, it was shown during the in-depth interviews to be an important component of some participants' retirement savings planning. The participants were financially literate and, although most appeared to understand and value diversification, there was evidence that the influence of the employer-sponsored share schemes had a considerable impact on asset allocation. The interviews revealed employees prioritising SIP investments over pension investment and, as a consequence, several participants' strategies were heavily dependent upon the future financial well-being of their employer.

4.4.1 Different motives for enrolling and for increasing contributions

The first finding that merits further comment is that the study uncovered different motives for joining the workplace pension scheme and for deviating from the defaults. This is a subtle distinction, but one that acquires increased relevance within the context of automatic enrolment. The theoretical premise underlying much retirement saving research is that by saving into a pension scheme the individual is attempting to maximise utility (or well-being) across the life cycle - there is an implicit assumption that the desire to save into a pension has a financial basis. Some commentators believe that low-saving individuals are making a 'mistake' - from the perspective of the life-cycle hypothesis, failure to smooth income over the life course is *prima facie* irrationality, and it is bounded rationality and self-control issues that explain why some individuals put off saving for the future (Benartzi & Thaler 2004). Failure to save optimally for retirement has been viewed as a shortcoming in

intention realisation (Rabinovich & Webley 2007). The efforts to increase savings rates through the introduction of automatic enrolment focus on intention realisation, by providing an effortless mechanism to save.

This study has revealed that all of the interviewees believed that it was important to save for retirement - but the main driver of pension scheme membership appeared to be a wish to put down a 'marker' for retirement - not an attempt to meet predetermined savings goals. The earmarking of income into the pension by remaining automatic enrolled appeared to be motivated by social processes. The underlying factors that drove the participants to accept membership of the scheme were linked to the sense that, for individuals of their social position, doing something about retirement was socially expected. The motives behind deviating from the default were much more complex. The distinction between the intention to save and the motivation behind how much to save may be subtle, but this is an important point because automatic enrolment facilitates intention realisation but does not appear to facilitate consideration of pension saving adequacy.

The level of contributions into the pension scheme appeared to be lower than might be predicted were individuals behaving optimally according to the life-cycle hypothesis. Time preference horizon has been shown to be robustly related to savings behaviour (Wärneryd 1999). This study confirms these findings - resources were being directed to shorter-term objectives rather than into the pension scheme. Contribution rates were influenced by the importance that participants attached to achieving a *balance* between current expenditure, short-term savings, and long-term savings decisions. For example, rather than buying childcare, several participants had purposely reduced their earnings and retirement savings in order to spend time with their children. But the evidence from this study suggests that there was self-awareness that time-preferences might not be optimal in the longer term and individuals recognised self-control issues related to short-term consumption desires. They demonstrated awareness that short-term consumption might have detrimental effects upon their financial position in retirement. Accordingly they utilised commitment devices, such as allocating pay rises to the pension scheme and investing into the share schemes, to restrain current consumption. However, restraint was primarily linked to spending on material possessions; participants were less willing to restrain consumption that was connected to

experiences, particularly if these experiences might not be available in the future. This suggests that decision-making might, in part, be motivated by an awareness of the opportunity costs of restricting current consumption. But the fact that individuals differentiated between material and experiential consumption suggests a nuanced relationship between how the individual values the present and the future. It is inherently difficult for an observer to value utility and it is not possible to establish whether individuals were behaving rationally based upon their savings rates alone.

In previous research there has been a lack of attention paid to the distinction between why individuals engage in future-orientated savings and the motives underlying how much they save. But this study has revealed that individuals can be committed to saving for retirement but concurrently make active decisions not to commit more resources to the pension scheme. This behaviour might, from a long-term financial perspective appear sub-optimal, but when viewed from the perspective of 'experiencing life whilst young' or 'bringing up children', limiting contributions into the pension scheme was a conscious decision that reflected priorities. Although participants rarely reflected on the financial value of their pension pots, or tried to calculate the pension income they would provide, it was not clear whether having that knowledge would have significantly altered behaviour in response to the default settings in the workplace pension scheme.

4.4.2 The hierarchy of investment strategies

The second finding that merits attention is that there was a hierarchy of investment strategies, with the desire for housing security and debt reduction dominating over pension investment. The finding that housing plays an important role in individuals' financial plans is consistent with existing research (Smith 2005), but there is some doubt as to whether saving into property has a substitution effect in relation to retirement saving. Some commentators maintain that the bulk of pension scheme saving is net additional saving (Poterba et al. 1996). However, in this current study, individuals reported a negative correlation between housing asset accumulation (through debt reduction) and pension saving. The explanation for respondents prioritising mortgage debt reduction over pension fund accumulation is partly that participants viewed housing as part of their retirement strategy. Smith (2005) draws attention to the evolution in utility of property from mere domicile to potential

investment asset: the examples from this data of the perceived fungibility of housing wealth and pension savings may substantiate her point.

Most studies approach debt as problematic and as a wider pattern of 'dysfunctional' economic behaviour (Lea et al. 1993) and it is rare for distinctions to be made between how individuals view reducing asset-backed debt and how they view saving. The analysis revealed that some of the interview participants were highly financially literate and were utilising a variety of complex investment vehicles including buying rental properties to provide assets for retirement. Indeed, two individuals with self-reported high savings rates were not members of the company pension scheme at the time of the interviews. This suggests that, in the context of debt reduction and housing asset accumulation, low contributions into a pension scheme, rather than being problematic, can be viewed as an example of calculated financial behaviour.

An alternative explanation for participants' behaviour may be found in the work of Lunt and Livingston (1991) who intimated that accumulation of assets is influenced by attitudes to debt. Participants expressed pride in their ability to reduce their mortgages and this could suggest that an emotional response to mortgage debt was impacting pension savings rates. Emotional responses to financial planning are not generally included in financial decision making models, although Loewenstein (1996) argues for visceral and situational features to be included in explanations of future-orientated decision-making. He posits that 'affect' plays a critical role in financial decision-making. The data provides some evidence to substantiate Loewenstein's viewpoint: The findings presented in this chapter could be interpreted as showing that participant's pension contributions have been influenced by feelings of regret, pride, and loss avoidance.

It is, of course, plausible that willingness to pay down mortgage debt was being influenced by the wider economic environment and the climate of low interest rates following the 2009 financial crisis. Debt reduction could have had a purely economic basis, but, on the other hand, it may be that a reduction in mortgage debt was of greater social significance to participants than increasing pension contributions. Housing and mortgages were more often

topics of conversation than pensions⁵², and, arguably, it would be easier for individuals to demonstrate financial competence by declaring themselves ‘mortgage free’ than by accumulating a large pension pot. The theory that social influences affect savings behaviour is not new. Duesenberry (1949), in his analysis of consumption during the Depression, developed a relative income theory postulating that consumption is linked to an individual's comparison of the social standards of others. He argued that high consumption in one's social reference group leads to higher individual consumption and consequently reduces saving rates. It is not unreasonable to assume that social comparison can also have the effect of increasing savings and influencing asset allocation.

4.4.3 Attempts to diversify future-orientated investment

The third finding that merits attention is the participants’ attempts at diversifying their future-orientated investment. The literature review drew attention to the importance of financial education for optimal retirement planning (Lusardi et al. 2011, Lusardi 2008) and there is a strong correlation between numeracy and the accumulation of retirement assets (Banks & Oldfield 2007). Lack of financial literacy has been linked to default adherence and it is suggested that financially sophisticated behaviour is an explanation for some default deviation (Engstrom & Westerberg 2003). The participants in this study were all financially literate and they appeared to understand and to value diversifying potential sources of income in retirement. Some of that desire to diversify and to save was motivated by concern for the adequacy and reliability of the state pension and this finding highlights the interdependence of state and private provision suggested by Lain et al (2013). However, although participants *sought* diversification there was evidence that the influence of the employer-sponsored share schemes had a considerable impact upon *actual* asset allocation, and several participants’ strategies were heavily dependent on the future financial well-being of their employer.

It is suggested that institutionally-derived defaults are interpreted as being ‘implicitly endorsed’ (Brown & Krishna 2004; McKenzie et al. 2006). US research suggests that trust in the employer, and associated employer endorsement may play a role in altering investment

⁵² Examples of this are provided by I in Chapter 5.3.

risk perception (Bernasek & Shwiff 2001). Although employer endorsement⁵³ is a plausible explanation of why participants underplayed the risks associated with holding employer's shares, analysis of the data also suggests that length of employment, significant growth in the financial strength of the share price, and positive perceptions of their employer all had a role to play. However, irrespective of the motives behind investing in employer's shares (as a retirement strategy), the individuals were still vulnerable to stock markets risk. This is an important point because, although UK regulators have legislated against retirement funds being invested in the employing company's shares, (in the United Kingdom management of occupational pension schemes is conducted at arm's length from the employing institution) there has been no systematic attempt to alert individuals to the risks of employer share schemes.

This research highlights that share schemes have an impact on employees' diversification strategies and that some employees consider (government approved) share saving schemes to be part of their retirement savings strategy.⁵⁴ In a defined contribution environment, where retirement savings are invested in the stock market and are vulnerable to systemic risk, the extent to which individuals understand risk and allocate their other savings accordingly, is of some importance.

In conclusion, this chapter of the thesis has aimed to contribute to our understanding of retirement saving by demonstrating that, when being automatically enrolled, most individuals do not simply reflect upon absolute affordability criteria, or upon retirement outcomes but include social factors such as how others interpret their behaviour. The findings from this study confirm the conclusions reached by previous research, that many individuals wish to save for retirement (Bourne et al. 2010; Clery et al. 2010), but this research project has also revealed that once enrolled in the pension scheme different factors entered the decision-making process. How participants decided on a suitable contribution rate was, to some extent, influenced by the context in which the decision was

⁵³ Employer endorsement is discussed in greater detail in Chapter 6.

⁵⁴ The role of the employer in influencing the decision-making process will be discussed in greater depth in Chapter 6.

made and the study reveals that all of the individuals attached considerable importance to life experiences and to debt reduction. This finding questions the income-smoothing motives for retirement saving inherent in the life-cycle hypothesis and suggests that, in some circumstances, affect, and social factors play a critical role in financial decision-making.

The findings discussed in this chapter also suggest that DC occupational pensions were rarely considered the sole means of providing income in retirement and that many participants used alternative strategies to ensure financial security in old age, including investing in property and saving in employer-sponsored share investment schemes. The study draws attention to the interaction between pension match defaults and other employer-sponsored financial vehicles and highlights that share schemes have an impact upon pension contributions. It shows that, in a defined contribution environment, some employees consider share saving schemes to be part of their retirement savings strategy and the presence of these share schemes has a bearing on diversification strategies and risk assessment. The conclusion that this chapter reaches is that, although social factors were the main driver of membership of the pension scheme, the employer influenced individuals' response to the default settings and their allocation of additional resources to retirement saving.

5 The Social World

This second results chapter discusses the effects of the life course and social relationships on retirement saving. The events underpinning the participants' savings decisions, in some cases, covered extended periods in their lives and, consequently, there were other variables such as 'maturity' the 'passage of time', and the 'changing nature of relationships' that exerted an influence both on individuals' behaviour and on their recall of events. The chapter firstly discusses the connection between how settled individuals felt in their lives and their approach to future-orientated savings. It includes some of the life events such as household formation, and having children that acted as catalysts for alterations to pension contribution levels. The chapter also addresses the role that relationships play in retirement savings decisions and the study uncovered some evidence of joint decision-making amongst spouses, and a suggestion that if one partner in a relationship has access to a generous pension scheme this has positive impact on the retirement preparations of the other partner. The study also found, contrary to expectations, an increase in pension saving following divorce. The analysis of the data regarding the link between the relationship status of the single participants and pension default adherence or deviation raised some unanswered questions - particularly surrounding issues of gender and financial autonomy and the conclusion drawn from the study is that this is an area that merits deeper research investigation. Finally, Chapter 5 sees the presentation of the data relating to parental influence. The participants drew attention to the important role that their parents had played in establishing their attitudes to retirement saving and the analysis of the interviews also suggests that many participants were modelling their expected life course on their parents' experiences. Although parents played an important role in developing diversification strategies, they actually had very little influence on default adherence or deviation. This is largely due to the two generations having had different experiences of occupational pensions: most of the parents had been in defined benefit schemes, whereas the younger generation were predominantly in defined contribution schemes.

5.1 Settled lives

It was noted in Chapter 4 Section 2 that the minimum default rate of 3% was considered a suitable contribution level for younger participants (and, implicitly, that older participants should contribute at a higher rate.) This point is important because of the elasticity of the concept of 'younger' and how participants applied the definition to themselves. For example, for some 'younger' meant 'just out of school'.

A - I'm thinking of eighteen-year-olds or sixteen-year-olds - 3% at that point is probably enough to go on.

Whereas for other participants being in ones thirties was still perceived as young

T [age 30] - Whereas a young woman like me

The age that participants viewed it necessary to increase their own contributions varied considerably and largely reflected their own personal circumstances, such as whether or not they had dependants, rather than being related to chronological age.⁵⁵ Thus, we see some participants expressing the view that pension contributions need not to be increased until well into the future, whereas others were already beginning to see themselves as no longer 'younger'. One infers from this that the life stage of the individual and the order of key events such as career establishment, house purchase, marriage and parenthood are of some relevance for default adherence.

For most⁵⁶ of the participants who were contributing at 3% their low pension contribution rates appeared to be related to an unwillingness or inability to 'settle down'. For example, several of the participants had travelled abroad in their twenties and subsequently they appeared to experience a period of adjustment characterised by low pension savings as they came to terms with being located in one place. These unsettled individuals were less likely to have enrolled in the pension scheme from the outset and more likely to have begun contributing at the minimum default. There were particular types of individuals for whom

⁵⁵ See also Chapter 6.1 for the role that colleagues play in influencing the age that individuals felt it was appropriate to increase contributions.

⁵⁶ The exceptions were the two individuals who had children prior to joining the pension scheme - the significance of this is discussed at the end of this section.

the issue of settledness appeared to be more relevant, and certain circumstances under which the issue of pension portability had resonance.⁵⁷ These points were raised most often by overseas nationals and those who had family connections overseas.

W - I think probably we see ourselves moving to the States at some point in the future. There's a lot of issues and a lot of uncertainty.

Those participants who were not UK nationals felt that there might be a possibility they would leave the UK and, for a few, this lack of a settled residency was linked to a perception that their current career was not permanent. The possibility of emigration appeared to lead to a lack of commitment to the pension scheme that either resulted in opt out behaviour, or in minimum default adherence - although there is no evidence that potential emigration led to reduced saving through more accessible savings vehicles such as employer sponsored share schemes.

In some cases changes to personal arrangement prompted financial decision-making that encouraged individuals to break with previous behaviour. Bynner (2005) draws attention to the stabilising effects of partnership on young adults, and this effect is relevant to adherence to contribution defaults. For example, some respondents highlighted how changes in relationship status, in particular settling down and raising a family, were the catalyst for increasing pension contributions. There were several participants in the sample who were married and, although they were planning to do so in the future, did not yet have children. The evidence suggests that planning for a family prompts discussions about the future and it was this critical reflection that led to proactive future-orientated savings behaviour.

V - Basically when we just started thinking about buying a house together and having children, so we just had a conversation between the both of us and started planning for the future.

Reflecting on the future comes both as a consequence of thinking about children, and of the passage of time. It also adds strength to the sense of obligation about putting down a

⁵⁷ The issue of pension portability and emigration is discussed in Chapter 6.2.

marker for retirement that was discussed the previous chapter. Saving for retirement when one has children is perceived as the *right thing to do* [B]. For example, one individual, when talking about a neighbour who had no pension, remarked.⁵⁸

C - I was a bit concerned with this attitude; he has a wife and two kids. He should think about them as well.

The wish to protect dependants exerted a powerful force on those participants who had previously been saving little for retirement because they had anticipated changing their employer or their residence.

B - You kind of have a bit more of mature view as well, don't you, of long term future and, you know, as we were kind of viewing family life and things like that automatically you just start thinking, well if it's the right thing to do irrelevant of whether or not we are staying here for a number of years.

The data indicates that planning for children led to increased pension saving and default deviation as participants laid down a savings foundation for the future. But the perceived effect of children on disposable income also featured. Several participants indicated that having children and being settled are seen as synonymous.

The perception that having children equates with settling down creates some tension between saving for the future and enjoying life while young. In those participants who were not immediately considering children, although the link between dependants and responsibilities was recognised, the preference was for directing expenditure towards current experiences rather than increasing pension saving.

G- So yes, I think if I was in that kind of situation then, yes probably, I would have a more significant nod towards the future and to be a bit more forward planning, because I would have dependants and a settled life.

⁵⁸ The belief that there was an obligation to protect dependants was not restricted to individuals with children. See Section 6.2.1.

However, those participants closer to childrearing had already envisaged a reduction in income when they started a family, whether through actual costs, or because of reassessment of priorities.

W - I haven't got any children but five ten years from now I am sure that I won't be able to afford that level of commitment.

There was recognition that high personal saving might not be possible in the mid-term; that while children were growing up it would be difficult to save into the pension and that consequently increases might need to wait until the *kids were older [M]*. There was some attempt to compensate for the perceived mid-term constraints on disposable income by increasing current short-term savings, even if this was at the expense of not increasing pension contributions.

A - No, my immediate priority is the next five years. Starting a family. And if it's a choice; to put more into the pension over and above what the company would contribute, to putting away for kids -then I think if I have kids my priorities will change. Save for kids for the now.

The evidence that future parents expect not to increase contributions in the mid-term adds to the finding in the previous chapter that existing parents prioritise life-experience with their children over additional pension savings. But there is a complex intertwined relationship between the stage that individuals are in their lives vis-à-vis child rearing and where they are vis-à-vis career progression. Two participants who had not developed clear occupational career tracks prior to having their first child pointed to child costs as a reason for starting (and continuing) to contribute at 3%, but there was no evidence that parenthood had subsequently led those already saving 6% to reduce contributions. This appears to suggest that default adherence is linked to perceptions of affordability at the time of automatic-enrolment rather than to subsequent expenditure demands.

5.2 Relationship status

The individuals in this study are all at least two decades from retirement; consequently, their responses should shed light on the relationship between relative youth, partnership

status, and default adherence. The impact that being in a relationship has on default adherence appears to be mixed, and because the partners were not interviewed, we only have one side of the narrative; however, there does appear to be some effect. The majority of respondents were in a relationship or married, but it was relatively rare for an individual to mention that they were considering their partner's pension scheme when calculating their own retirement plans. Although most of the interviewees were aware whether or not their partner was saving for retirement, only one respondent, unprompted, stated that he was taking his spouse's pension provision into consideration and building his own investments around it. However, although participants were not always aware of the details of their partners' pensions, and did not appear to be taking them into consideration, the evidence suggests that participants did discuss pensions with their partners and did engage in joint decision making. There is also some evidence of respondents encouraging partners to enrol in a pension scheme and to increase contributions beyond the minimum default.

P- She does exactly the bare minimum. Every year I say to her you need to change that, I can't change it for you, you need to change it.

Although the transfer of pension information between spouses was rarely mentioned, the data suggests that couples share knowledge and, in one case, where a participant had access to parental pension expertise this trusted source of advice was made available to the spouse. Advice from financial advisors, although rare, also appears to be communicated between partners.

V - My husband got a promotion and I think he had a conversation with the financial adviser of the company. On the back of that conversation with his company he then talked to me.

There were two examples of couples where both partners had an extended period of not contributing to a pension scheme⁵⁹, but it was more often the case that one individual in a relationship had built up more assets for retirement than the other. All the respondents in

⁵⁹ CB& W's lack of pension scheme membership was linked to unsettledness - see 6.1 above

the sample earned above average salaries and many of the partnered interviewees earned more than their spouses. It was striking that the lower earners in the relationship, particularly if they did not have access to a DB scheme, were generally contributing less to their pension, both absolutely and relatively. A few of male participants, who were contributing at the 6 % rate, had wives who had been automatically enrolled and were contributing the minimum default. In most cases where there was considerable income imbalance the higher paid partner took greater responsibility for pension payments. Usually the lower earner was female, but this was not always the case: There were two women in the sample whose husbands currently had low incomes and neither man had made much provision for retirement either; although one difference between the male and female respondents is that the women expressed more concern about their partner's limited pension arrangements than the men did. This appears to be linked to an awareness of the potential impact of child rearing on their own lifetime income and pension contributions.

Irrespective of how they felt about their partner's lack of pension contributions there was little evidence that participants were increasing their own contribution rates to compensate for their partners lack of preparedness. In fact, the evidence points to some individuals increasing their own contributions when partners were well-prepared. Several of the participants had partners who were members of more generous retirement schemes than their present scheme. Although all the respondents were vague as to the details of their spouse's scheme, or indeed their own entitlement to it, all of the participants whose partner was working in the public sector and had access to a final salary pension scheme were aware of the benefits of DB membership. Although it is not clear whether or not there is a link between an individual's pension contributions and their partner's membership of a DB scheme, the evidence from these interviews suggest that spousal DB membership might have a positive influence on an individual's willingness to deviate from the minimum default. Several of the participants whose partners were in a DB scheme had deviated from the default and were contributing at 6%. This may be because the individual perceived adequate pension provision as a norm within their relationship and that there was a desire, particularly amongst men, to reach pension parity with their partner. The quotation below supports this point as it suggests that the participant will increase his contributions from 6% in order for his own pension to reach parity with his wife.

C - But she's looking after those side of things but I'm fairly sure that she'll be better off than I will be unless I step up.

This would be in line with Bajelsmit et al.'s (1999) findings that when men have a spouse who has access to a DB pension they are estimated to increase relative allocations to DC pensions. An alternative possibility for the correlation of spousal pension behaviour is that there is congruence between the socio economic status of married women and their spouses. Higher earning women with pension entitlements are more likely to be married to similarly situated men - a process known as assortative mating (Sweeney & Cancian 2004) although the opposite does not generally hold true (Clark & Strauss 2008).

5.2.1 The gendered effects of relationship status upon single people.

The pension research literature has focussed on the financial ramifications of divorce for financial security in old age and some commentators suggest that changes in family formation, such as the increase in single parent households, are responsible for growth in inequality' (Daly & Valletta 2006). However, the data from this study did not suggest that the divorced mothers were saving less for retirement than the other participants but, rather, revealed that for some, divorce culminated in greater financial autonomy. Divorce may actually have increased those participants long-term financial security by motivating them to take responsibility for pension contributions. Three participants directly attributed their current relatively high retirement savings rates to their experiences of divorce as they attempted to gain financial independence. Indeed one participant noted that her ex-husband had actively discouraged her from saving for a pension whilst they were married.

R - My main motivation is just to be independent and self-sufficient,

E - He dragged me down with him but I wouldn't go down that path again you know.

The contribution rates of the divorced women contrasted with the minimum default contribution rate of the two women who referred to themselves as un-partnered and childless. As has been previously intimated, those participants contemplating raising a family generally attached importance to being members of the pension scheme and to increasing contributions above the minimum default. This phenomenon can be linked to

how individuals view the purpose of retirement saving; participants seemed to be considering pensions as a form of insurance linked to providing for dependants, and as a means of avoiding being a burden on children in later life. Consequently, for the single participants, saving substantial amounts into a pension for dependants was of less relevance.

T - Whereas a young woman like me with no responsibilities or children, it's just not top of my list.

The belief that pension saving is for the benefit of dependants was also extant amongst the men in the sample.

L - At the moment I have no one else as a dependant so I may be saving for a day that I never benefit from.

However, for males being single correlated with deviation from the default settings and the three male participants were all saving more than the minimum default. Analysis of the interview transcripts did not uncover a reason for the single men's high savings rates. Commentators have suggested that there is a link between single households and inequality in retirement (Daly & Valletta 2006: the unexplained evidence from this study suggests that this premise needs to be examined within the context of gender and relationship history).

5.3 Parents and the life course

There was little indication in the literature that parents played a significant role in retirement savings. The data presented in this section revealed that parents actually had very little influence on default adherence or deviation but they did have an important role in establishing general attitudes to retirement saving, and in developing diversification strategies. The analysis suggests that parents were influential because many participants were modelling their expected life course on their parents' experiences. Moreover, as participants saw their parents age this increased the salience of the need to save for retirement - for a few of participants, having a parent who was not adequately financially prepared for retirement encouraged them to think about pension saving.

Although several of the interviewees spontaneously volunteered information about their parents, all were specifically questioned about their parents' retirement provision. When discussing retirement savings decisions participants attached considerable importance to the part that parents have played in developing their own financial attitudes. Parents were mentioned in the context of offering direct encouragement to save for retirement, acting as exemplars of 'good' retirement savings behaviour, and offering information and advice. One third of the participants directly attributed their own retirement savings behaviour to parental influence, and the others acknowledged the role that parents had played in developing their financial values.

S - So in my case from the tender age we were told to save, told to be savers for the future, - not just for the rainy day per se but for the future and opportunities that may come.

Several participants drew attention to the positive outcomes that their parents and, in particular their fathers, had experienced through saving for retirement and made connections between those experiences and their own willingness to save for retirement to achieve similar outcomes. A handful had fathers who '*insisted pretty much*' [Q] that they enrol in a pension scheme. This type of proactive instruction from a parent is not always immediately effective, but does appear to establish foundations for future parent child dialogue about pensions.

J - He was badgering since I started with the company and it wasn't until I came round to his point of view, I think that's a function of maturity and becoming an adult⁶⁰.

The data suggests that parental encouragement has a greater effect on pension scheme membership than on personal setting of contribution levels. Although parental attitudes influenced the participants' approach to building up assets for retirement, there is much less evidence of parents directly influencing the amount that is saved or the investment fund selected. However, one needs to be cautious about drawing firm conclusions. Although

⁶⁰ Js comments about maturity and adulthood substantiate the point made previously that changing attitudes to pensions is linked to 'growing up'.

some participants attributed their pension membership to parental influence, close examination of the contribution rates of participants who indicate parental influence reveals that three of the male respondents who had been encouraged to enrol by their fathers were making the minimum contribution. This finding adds strength the point, made in the previous chapter, that individuals sometimes join workplace pension schemes because they feel they ought to rather than because they have made an assessment of their likely financial circumstances at retirement. The two women who spoke about the positive encouragement they had received from their fathers to sign up for the pension were both contributing at 6% but there could have been other personal influences causing this default deviation. There were only a very small number of cases where there is evidence that parents had taken a proactive stance in informing and advising on actual contribution rates. This was usually because the fathers had experience in the financial services industry.

Q - Again with my dad's input as well. We had a look and we just upped it a little bit, you know, just to try and get a little bit of decent return on it so to maximise the return a little bit.

The approach that the father took to pension saving often reflected on how the respondents approached their own saving. A few participants expressed a proactive ethos that echoed their fathers' approach - contributions needed to be more than the minimum contribution set down by the scheme parameters. For example, some fathers had made additional voluntary contributions to their occupational pensions schemes. As the quotation below demonstrates, in at least one case the mechanics and consequences of this approach had been successfully transmitted across generations and this had a direct effect on the participant's own pension contributions.

P - Mainly down to influences from my parents, my father in particular who, for whatever reason, every time he moved companies, started another pension scheme, but continued to pay into his previous one. He's paid dividends now, but it's always been something he has kind of pushed hard, so in terms of pensions.

I always wondered why he spent so much money putting into five or six different pensions, but the second he retired he actually has a bigger income now, that he's

not working [laughs] than he did when he was working. So it's paid dividends for him. It is has also allowed him to retire at 55. So, watching him, He is extremely tight with his cash and likes to squirrel it all away but you see the dividends of it in the end. So, that has probably been the biggest driver for me in terms of being very proactive about it.

Several of the women spoke about their worries for their mothers' financial position in retirement because they had not built up adequate pension provision. The evidence from this study suggests that the mothers' pension situation had an impact upon how some female participants approached pension saving. For example, a few of the female participants explained their own perceived lack of financial preparedness or financial skills on their mothers' shortcomings.

I - My mum obviously she's not in control of her own finances as far as from my perspective. She has never sat down and kind of explained any of that to me.

But is not clear whether having a mother with little financial literacy was being offered as justification for low pension savings, or was a cause of it. Lack of maternal financial skills or pension preparedness was not offered as an explanation for their own behaviour by any of the men in the study. Moreover, the financial position and knowledge of the mothers may have been caused by structural gender inequality - as one women noted when discussing how her mother had little retirement savings - '*it was common to most women of her generation,*' [Y]. One cannot assume that the same social and structural forces act upon the participants themselves.

Although four of the women who mentioned their mother's poor pension arrangements were themselves contributing at the default rate of 3%, the data suggests that having a parent who is not adequately financially prepared for retirement may actually encourage reflexivity about pension saving. This is because it raised concern for parental circumstances in retirement, and the responsibility that the women felt for their parents' well-being appeared to act as a catalyst for thinking more about finances.

I - My Mum is self-employed and she frightens me to death because she has no pension. So that's made me think.

G - I'm starting to think a bit more like that. I guess because my brother is abroad and my sister is worse than they are at money! So it's kind of has fallen to me.

It was rare for participants to refer to their father's lack of preparation, primarily because most participants had grown up in a household with a working male who had been a member of a defined benefit scheme. Those few participants whose fathers had little employer-funded pension entitlement were saving little into pension schemes themselves. And there is evidence that negative parental experience regarding market-linked pensions had a bearing on the attitudes of respondents to scheme membership. For example, as the quote below illustrates, W, who had opted out of the occupational pension scheme, felt that saving into a pension was a fruitless exercise and he linked this to his father's experience.

W – Yeah, I mean, when I guess I was a teenager, my Dad was self-employed and in a private pension. It was one of the earlier whole-market products ⁶¹and, in the early nineties, when the housing market crashed and there was a recession, he saw a lot of money in that pension wiped out and obviously that same thing happened fairly recently for a lot of people. So, you know, that sort of uncertainly makes it a bit of a fool's errand.

Additionally there is evidence of parents passing on selective financial information that shifted the focus from pension contributions to other investments or to debt reduction.

I - I suppose I get, my aim is to pay my mortgage in the next 10 years, we've just moved into a house and I suppose from that point of view, but that's him telling me that, 'you should pay off your mortgage, Go on this calculator. You can take seventy grand off your mortgage', but he never really speaks about pensions⁶².

Although one cannot definitively conclude that the father's emphasis on mortgage redemption and his failure to discuss pension saving have caused his daughter to focus on

⁶¹ W is referring to personal pensions that were heavily promoted in the 1990s. The background to the problems with personal pensions was outlined in Appendix A. 8.4

⁶² This comment also reinforces the point made in Chapter 4 that mortgages are more often a topic of conversation than pensions and that participants prioritised debt reduction over increasing pension contributions.

her mortgage redemption rather than pension saving it is reasonable to assume that it could be a contributory factor. Several other individuals also emulated parental investment strategies. Some parents had recourse to property investment to provide retirement income, and children were generally better informed about value of their parents' properties and mortgages than their pensions. The previous chapter presented evidence of participants directing funds from pensions into mortgages as a long-term strategy, rather than increasing pension contributions. In two cases participants had previously opted out of the workplace pension scheme to build up property investment and this behaviour drew parallels with their fathers approach to providing security in retirement. Participants appeared to be engaging in mimetic behaviour and copying parents' savings patterns. The data also substantiates previous research that points to children basing their expectations of life on those closest to them, in particular family members (Rowlingson 2002).

C- I've had grandparents who have been comfortably retired so therefore it's assumed that one day I will hopefully reach that point.

Respondents based their hoped for retirement dates on their parents, many of whom had retired in their fifties. Although most participants acknowledged that they may have to work longer than their parents, and a few thought that they would be working into their seventies, anticipated retirement dates were usually below the current state pension age. Several mentioned retiring at around sixty. The desire to retire early influenced how participants approached achieving multiple sources of income in retirement, and those who reflected on how their parents had achieved early retirement were more likely to be proactive about saving for retirement.

A - He's retired, is working part-time for the Council, and has a pretty comfortable life. And so if I can aspire to have a life like that when I'm in my late fifties that would be nice.

Participants referred to long careers, accumulation of housing wealth and pension wealth, but there was little reflection on the details of their parents' experiences. In most cases the route to parental pension security involved structural factors such as lifelong secure employment, property ownership, and largely passive DB pension scheme membership. The

difference in economic circumstances between generations was rarely brought to the fore, except as a narrative about upward mobility; several references were made to fathers who did not benefit from higher education but were able to retire comfortably. The knowledge that most participants possessed about their parents' pensions appeared to be limited and they conveyed the impression that they were assuming that replicating their parents' behaviour would lead to similar retirement outcomes.

Although it was generally believed that the occupational pensions available to the current generation were less generous than for their parents' generation, there was little reflection on the differences between defined benefit and defined contribution schemes. It was rare for participants to draw attention to their parents having been in DB schemes - although from the context of parental occupations this was probable. Parents appeared to have communicated the point that enrolment in a workplace pension is important to build up benefits, but there is little evidence that relevant technical issues were discussed. For example, only one participant made reference to annuities within the context of income provision in retirement. This lack of attention to pension scheme architecture may explain why modelling behaviour was prevalent for scheme membership but appears to be less relevant to contributions levels.

5.3.1 The salience of premature parental death and precautionary saving

Premature death was mentioned by some participants and was given both as a reason for contributing to the pension scheme and as a reason for not increasing contributions. Concerns about premature death appeared to be a driver behind some individuals thinking about retirement provision. As noted in section 6.1 above, pension membership was perceived as an integral part of protecting ones dependants from the possible financial consequences of premature death. It was mentioned by one participant as a reason for re-joining the scheme after originally opting-out.⁶³

X - 'There's the benefits with the pension in terms of free death in service insurance.

⁶³ This particular participant had been subjected to social pressure from colleagues to enrol in the pension scheme – see Chapter 6.1 for the discussion on the role of colleagues.

The increased risk of premature death through possible hereditary predisposition also altered how the individual allocated resources for retirement. Two drivers for this were identified; perceived loss of savings, and, as was discussed in Chapter 4, the opportunity costs of restricting current consumption. Although contributing to a pension is, in effect, an insurance policy against longevity, pensions were not viewed at such, and participants reported examples of early parental death leading to a belief in the futility of saving for retirement. This is entirely consistent with previous attitudinal research which has recognised that pessimism about mortality can inhibit pension saving (Clery et al. 2010) and long-term planning (Brown & Vickerstaff 2011).

Two women had lost their mothers to cancer in young adulthood and this experience affected their own behaviour. One referred to parental death as *losing your role models* [E], but in addition to losing guidance, the salience of maternal early death and, by extension, the possibility of her own premature death, also moderated the resources this participant directed towards saving for retirement, shifting the balance towards lifetime experiences. As the previous chapter has shown, respondents sought to achieve a balance between life experiences and saving for retirement: premature death appears to have the effect of recalibrating these values.

E - There is an awful lot of talk about you know 'I am going to do this, I am going to do that' and okay that is your general perspective, however, live for the moment and I always make sure that I've got enough money to enjoy what we are doing now and also have some savings. That's why I am not overly-committing to a pension now because I think there is time to do that in the future and I might not even make it. [Laughs] Not me being depressive it is just being completely realistic.

The second woman spoke about how her widowed father's serious ill health had prompted him to draw one occupational pension early and give some of his savings to his children. As her father entered his sixties she reflected on how his approach to mortality, and his consequent financial situation now impacted on her own approach to pension saving and how, from being someone who had previously not saved, she was now '*becoming the practical one*,'[B]. In addition to trying to make her father recognise that he could live until retirement, his survival and her concerns about financial insecurity in retirement made her

reflect on how lack of pension preparation would affect her own children. She directly attributed this to her and her partner having recently joined the pension scheme.

B- I just think. I'd never want, I guess I would like to think I'd never want my children to be in the same situation as me where you are worrying about whether your parents are going to afford to even house themselves you know as they get older and sort of retire?

The first case suggests that for participants who have lost a parent, having their own children could restrain retirement saving by shifting the balance from saving to experiencing life now, but the second case suggests that planning to have children can also encourage retirement saving. Although these findings appear to be contradictory, different outcomes may be explained by the interplay of other factors. Brown and Vickerstaff (2011) noted that social capital, empowerment, coping skills, and insight, explain variations in constructing narratives about the future. This study adds 'concerns about burdening others in the future' as a powerful counterforce to the effects of mortality pessimism on building up assets for retirement.

5.4 Discussion

The interviews identified that how settled individuals felt in their personal lives was important for future planning. Life events that were associated with maturity, such as planning to have children, usually culminated in increased pension saving. Secondly, relationships were of some importance - although there was limited evidence of participants taking their partner's pensions into consideration when assessing their own pension contribution. Changes in relationship status, including marriage, and divorce, could alter previous savings patterns. Thirdly, parents were considered to play an important role in developing financial attitudes and savings behaviour and this included offering encouragement to enrol into the pension scheme. All of the participants, including those who stated in the questionnaire that they had not referred to parents for pension's advice, linked their current financial attitudes to parental influence. Parents were valued for providing information and guidance about pensions but their direct impact on default adherence was mixed. Some participants appeared to be modelling their financial behaviour

on their parents. For others, having a parent who was not adequately financially prepared for retirement encouraged reflexivity about pension saving. Early parental death could restrain retirement saving, but concerns about the surviving parent's financial insecurity in retirement could act as a powerful counterforce. This discussion deals with each of those three themes in turn.

5.4.1 The importance of the life course

The first point that merits discussion is that the life course is important. Some of the participants made the point that lack of pension participation when they were younger was related to their reluctance to settle down. An important step in the lives of the participants under study was the development of the individual from an adolescent to a financially autonomous adult - a period that is sometimes referred to as 'emerging adulthood' (Arnett 2014). In most cases there was a contrast in the savings behaviour between the time when participants perceived themselves as young and immature, and the time when they considered themselves 'grown up'. The results from this study point to conflicts between the desire for self-actualisation as individuals settle down and in their words 'grow up', and the need to save early for retirement. However, although some individuals referred to 'lifestyle choices' directing their behaviour, and subjectively identified themselves as 'young' when referring to periods when they had not 'settled down', it was not clear why the age that they considered themselves 'mature' varied between participants. Some individuals appeared to be in a state of prolonged emerging adulthood until well into their thirties.

Although Arnett holds the view that this life stage is developmental, Côté and Bynner (2008) argue that apparent self-actualisation is in fact an induced social condition that represents a reaction to structural change. From this perspective because societal changes have led to uncertain career trajectories⁶⁴ it could be argued that some individuals in the study were coping with this insecurity by reconceptualising it as identity exploration involving career change, travel, and extended education. The range of trajectories open to the participants was potentially more diverse than their parents and grandparents'

⁶⁴ The insecurity of employment is further discussed in Chapter 6.2.

generations, the majority of whom had experienced largely continuous employment, since leaving school (Corijn & Klizjing 2001). Although, as a cohort, the stages of the participants' lives were not bounded by the same chronological ages and social expectations as previous generations, individual differences in the degree of interaction with this variation in structural and social constraints would explain why some participants experienced linear transitions from education to stable occupation to household formation and others did not.

Bynner (2005) draws attention to the stabilising effects of partnership on young adults, and this point appears to be of some relevance to retirement saving and default adherence. The findings indicate that household formation or planning to have children encouraged reflexivity that culminated in increased pension contributions, and this finding is in line with Lupton and Smith's (2003), research that points to the positive effects of household formation. Although Lupton and Smith detected no underlying theoretical reason for the increased saving, the current analysis suggests that protection for dependants may be a driver for pension savings. Referring back to the point made in the previous chapter about pension membership being 'correct' behaviour, there is also a suggestion from the interviews that it is morally correct to attend to the issue of saving for retirement if one has children. If, as this research suggests, default deviation is linked to childbearing, delays in childbearing or household formation as a consequence of societal changes impact on capital accumulation for retirement. This point is not merely of peripheral interest, but is of significance for future policy. One could conjecture that social policies designed to encourage individual agency – self-actualisation through education, gender equality (and the consequent delayed childbearing), flexible relationships, and freedom of movement, paradoxically sow the seeds of economic insecurity in later life by undermining self-reflexion, and future planning.

5.4.2 Changes in relationship status and altered savings behaviour

A second area of the data that merits attention is the role that relationships play in influencing savings behaviour. The influence of partners on retirement decisions has been the subject of recent research and the findings has pointed to communication between spouses about retirement planning (Loretto & Vickerstaff 2013), however, that research was on older age groups closer to retirement and the subject of partner's influence on early

retirement savings has received less attention. Much of the retirement savings literature approaches the issue from an individualised perspective, or from a gender perspective that focuses on the under-resourced position of women (Ginn & Arber 1991, Gough 2004). The focus may be explained by the difficulties in researching the interplay between partners and their use of retirement-savings vehicles over a period of considerable change in female participation in the workforce. This current study also suffers from a similar individual-based weakness: we do not have access to the voices of the partners - their views are filtered through the perceptions of the participants themselves. There was only limited evidence of participants taking their partner's pensions into consideration when assessing their own pension contribution rates. Participants engaged in joint financial planning concerning property ownership and short-term saving, but the data backs up Joseph and Rowlingson's (2012) observation that pensions, in contrast to housing, are seen as individually owned. It was not clear why pension savings were treated separately.

One explanation may have been the young age of the sample or, as Joseph and Rowlingson suggest the relatively recent establishment of their relationships. It may be that maintaining individualised pensions is an acknowledgement that many marriages break down. An alternative explanation is that, as was noted in the previous chapter, participants rarely reflected on outcomes when enrolling in pension schemes. Thus, the fact that both partners were enrolled in a pension was viewed as being of greater significance than the cumulative value of the pension pots.

There was also evidence from the study to support Bajelsmit et al.'s (1999) findings that spousal access to DB pensions increased relative allocations to DC pensions. The research design precluded a deeper analysis of this point or into the role of the spouse on retirement saving generally, and the study draws no firm conclusions about spousal effects on default adherence, but it does suggest that this is an area of pension behaviour that merits further research attention.

Changes in relationship status, including marriage, as noted above, and divorce, were often shown to alter previous savings patterns. The study also identified a gender gap, with unmarried women being more likely to adhere to the default and unmarried men being more likely to deviate from the default setting. There was no clear explanation for this

difference, although it is possible that contribution rates were connected to risk perceptions Engstrom and Westerberg (2003) citing Barber and Odean, noted that single women are the most risk-averse group, single men are the most risk-loving group. There was also a hint that the women without children were more likely to consider themselves as young. It may be that, for women, life course is of greater significance for default adherence than chronological age. If the findings from this study are replicated across the populace then delayed childbirth has implications for income security in retirement. Women's earnings potential and ability to save for retirement is influenced by time taken out of employment for childbearing and this point is recognised in the research (Ginn 2003, Gough 2004) but scant attention has been paid to women's pension parity and long-term savings behaviour prior to marriage (Foster 2012). This is another area that merits further examination.

The study also uncovered differences in default adherence amongst divorced women. The economic consequences of divorce are well-documented and the statistical data points to divorce leading to lower disposable income for women in the UK (Uunk 2004). The pension research literature has focussed on the reduction in income and the financial ramifications of divorce (lack of saving) for financial security in old age and some commentators suggest that changes in family formation are responsible for growth in inequality in retirement (Daly & Valletta 2006). Analysis of the Savings for Retirement Questionnaire appeared to confirm the assumption that divorced women have lower savings rates into workplace retirement schemes and suggested that there was a correlation between divorce and minimum default adherence and opting out. However, the data from this qualitative study revealed that, although all the divorced women had mentioned periods of relative financial constraints, and made little pension saving immediately following separation, their savings rates had subsequently increased. The divorced women with children were more likely to increase contributions beyond the minimum default.

The likely explanation for these apparently contradictory findings between the Questionnaire and the interviews is rooted in the socio-economic status of the participants. Modest increases in employment levels following divorce have been identified in a few studies (Van Damme et al. 2009). In particular, women who invest more in social capital and education prior to divorce are more likely to increase working hours (Raz-Yurovich 2011).

The women interviewed for this study were all well-educated and it is possible that an increase in personal post-divorce earnings explains some of the deviation from the minimum default. Although this research did not explicitly discuss the relationship between pre-divorce earnings and current earnings, the study revealed that for some women divorce culminated in greater financial autonomy. Some participants directly attributed their current relatively high retirement savings rates to their experiences of divorce as they attempted to gain financial independence; divorce may have increased those participants long-term financial security by motivating them to take responsibility for pension saving. The conclusions that one can draw from this study are limited due to the small sample size and the research design but the tentative findings concerning the relationship between divorce, autonomy and saving for retirement, present a tantalising avenue of future investigation.

5.4.3 Parents are influential – but only to a limited degree

Parents were considered to play an important role in pension saving, although there was some doubt as to the efficacy of their guidance. This research confirmed previous findings that parents have an influence on the financial attitudes of their children - all of the participants linked their current financial values to parental influence. Parental encouragement has been demonstrated to predict higher total saving in young adults. Ashby et al. (2011 p.227) suggest *'that saving at age 16 is linked to saving at age 34, and that socialization experiences during adolescence, as well as social status and income, shape the savers that we become'*. The data supports these assertions to some degree; those participants who identified parental encouragement to join pension schemes appeared to have earlier enrolment and more continuous contribution records. Economic socialisation theory seeks to explain intergeneration similarities in savings behaviour through investigating the role that the family plays in developing savings habits. Family influence on general financial attitudes is well documented but research that exists on developing financial attitudes and behaviour largely focuses on children and late adolescents (Webley & Nyhus 2006). As Ashby et al. (2011) point out; there is a lack of research into young adults when they reach the age of financial responsibility. The limited studies that look at parental influence on younger adults rarely extend their focus past the college years (for an

exception see Elliott et al. (2012)). Indeed, it is generally accepted that parental influence declines in adolescence and very early adulthood.

The literature review did not identify any specific research into the role that parents play in directing their adult children's enrolment in company pension schemes. Most of the participants in this study appeared to be modelling their financial behaviour on their parents; there were examples of individuals opting out of the pension scheme to build up property investment - behaviour that drew parallels with their fathers' approach to providing security in retirement. Thus, although in most cases parental influence appeared to have little direct influence on default adherence, the individual's family background shaped their approach to building up assets for retirement. Participants appeared to be engaging in mimetic behaviour and copying parents' savings patterns. These findings are in keeping with theories of economic socialisation that point to modelling as an explanation for similarities in intergenerational behaviour (Webley & Lea 1993). However, it cannot automatically be assumed that economic socialisation and the transmission of parental attitudes is the explanation for all of the similarity in retirement savings behaviour between the generations.

Alternative theoretical explanations for similarities in intergenerational asset accumulation stress different dimensions of socio-economic advantage including; intergenerational earnings mobility, occupational mobility, class and status (see Torche 2015 for a review of the literature). Analysis of these factors has produced mixed findings and although the conclusions are not uncontested (Goldthorpe 2013), much of the existing research does suggest that in the United Kingdom there is a socio-economic association between generations. This study did not attempt to investigate these intergenerational socio-economic associations to any degree, and the research was designed to eliminate them where possible by ensuring that the socio-economic situation of the interview participants was broadly similar⁶⁵. Although the parental background of the participants was not known prior to conducting the study, the data did not suggest that parental socio-economic background had any relevance to whether or not participants adhered to the default settings of the workplace pension scheme.

⁶⁵ At least in terms of income, education, age and employment status.

Few studies have specifically investigated similarities in intergenerational pension membership although Gouscova et al. (2010) concluded that there is a positive association between father and child pension participation decisions that cannot fully be explained by the effects of parental socio-economic status. This current study suggests that there may have been informational effects that offer an explanation for participants' responses to the default settings, and which explicates Gouscova et al.'s findings. Parents were valued for providing information and guidance about pensions but this knowledge only appeared to have a positive influence on default deviation where there was already a high level of parental financial literacy. The few participants whose parents had a financial services background were more likely to take a proactive approach to saving and less likely to adhere to contribution or fund defaults. Although it is argued that the acquisition of financial competence is strongly influenced by structural failings relating to social class (Elliott et al. 2012), the analysis from this current study indicates that parental experience of defined contribution schemes, and parental assistance with financial planning, could be more important in explaining default deviation than socio-economic position.

The conclusions that one can draw from this study are that 'settledness' and 'maturity' both perceived and actual, are important for establishing retirement savings patterns. Those individuals who had not settled down, either because of issues related to self-actualisation, or because of an intention to move abroad, were unlikely to deviate from the minimum default setting of the workplace pension scheme – and in some cases opted out of the scheme altogether. Chapter 4 introduced the finding that membership of the pension scheme was perceived as 'correct' behaviour. Some of the influence driving that perception came from parents, but participants' receptiveness to the message that they ought to save for retirement also altered as they matured. A number of experiences were identified in individuals' lives that contributed to their perception of maturity; these including marriage, and planning to have children. Household formation acted as catalyst for changing contribution rates and, broadly speaking, responses to the pension scheme shifted from 'enrolling to please other people' to 'increasing contributions in order to provide security for dependants'. As their parents aged and, approached retirement, or died, the participants developed a gradual realisation of the significance of saving for retirement. Thus their

attitudes to pensions altered in response to changes in the life course not only of themselves but also of their parents.

This chapter has also considered relationships and it has found that changes in relationship status could alter previous savings patterns. The use of the individual as the unit of analysis meant that it was not possible to draw firm conclusions about the influence of partners; but there is some indication that, although there might be joint financial decision-making, retirement assets were seen as being individually owned. The study identified a gender gap, with unmarried women being more likely to adhere to the default and unmarried men being more likely to deviate from the default setting. It also identified attempts to achieve autonomy following divorce as being a possible influence on default deviation. Sample size and lack of longitudinal data prevented deeper investigation of areas that may be of some significance to default adherence and the study concludes that the interaction between gender and relationship status merits the attention of future researchers.

Finally, the analysis presented in this chapter suggests that parents have an important role to play in the financial well-being of their adult children, both in providing information and guidance about pensions, and in establishing retirement savings values. But, because most parents had been members of DB schemes, parental influence had little direct impact on participants' assessment of the suitability of the default; except in cases where parents had knowledge of financial markets and DC pensions. Nevertheless, parents were a trusted source of financial advice and the salience of parental financial experience influenced how individuals approached their own retirement planning – particularly regarding their diversification strategies. The financial vehicles that participants favoured, whether it was pensions or property investment, depended to some extent on the positive experience of their parents. So, although there was little direct parental influence on pension default settings, parental savings behaviour created the milieu in which retirement saving was considered. The significance of these findings is that the financial circumstances of the generation currently approaching retirement affects the behaviour of the younger generation, even although the economic circumstance and pensions environment when the latter retire are likely to be radically different. This ultimately impacts on the suitability of

automatic enrolment and market-linked pension's policies to meet the expected retirement needs of the current working population.

However, the participants approach to saving for retirement did not develop exclusively in a world of family relationships. Their life course was influenced by the extent to which they settled into a career and, as was highlighted in Chapter 4, the employer influenced the financial vehicles that they utilised to save for retirement. The following chapter returns to this theme and discusses the role that the work environment plays in influencing retirement savings behaviour.

6 The Employment Context

This final results chapter discusses the role that the work environment plays in influencing default adherence and deviation. The initial section presents evidence relating to the role of colleagues. Analysis of the data leads to the conclusion that colleagues play a role in encouraging scheme membership, both through example and, particularly for younger, less settled employees, through direct encouragement. The data presented in section 6.2 points to frequent changes in employment as having the effect of discouraging pension scheme commitment. There is also some evidence that demands at the point of changing employer can have the effect of postponing financial decision making, especially where this relates to increasing contribution beyond the default or when selecting investment funds. One important feature of the automatic enrolment legislation is that employees do not need to make any investment decisions at the point of enrolment. Much of the data presented in the previous two chapters has related to individuals' adherence to the membership defaults and to behaviour concerning contribution defaults, but little attention has been paid so far to the choice of investment fund. Section 6.3 of this chapter rectifies that shortcoming - it includes a discussion upon the role of the employer defaults in pension scheme decision-making. The conclusion that is reached in the discussion is that the presence of the employer permeates the entire pension savings process and the extent to which employees trust their employer's interests to coincide with their own has a strong influence on how they respond to the default settings in their workplace pension scheme.

6.1 The role of colleagues

The literature review highlighted the possibility that social influences, particularly from colleagues, might play a role in determining the extent to which employees participate in occupational pension schemes. Duflo and Saez (2002a) suggest that having co-workers participate in retirement savings plans can influence an individual's decision to also participate and Sorenson (2006) maintains that this is due to social learning effects as employees learn about pensions from their colleagues. The research project was developed based on the assumption that the role of colleagues was of importance. One of the objectives of the on-line questionnaire was to build up an understanding of the savings

behaviour of all of the employees at the research site. This section presents the findings on how employee interaction affects retirement savings behaviour.

All the participants in the study were questioned about whether they discussed pension arrangements with their colleagues. It was reported that pension arrangements were rarely a topic for conversation and this finding is consistent with existing research in this area (Foster 2012). The participants offered various explanations as to why pension saving was not discussed with colleagues. A minority thought that pensions were a sensitive topic, but these respondents were atypical, more often talking about pensions with colleagues was seen to be dull, boring, or not relevant. The perception of lack of relevance was linked to both the age of the participant and to the age of their immediate colleagues: the relative youth of colleagues was offered an explanation for their lack of interest in retirement savings. The employer still provided a defined benefit pension scheme and, although the company closed this scheme to new members several years ago, many of the older, longer-term employees were still contributing to the DB scheme. This point of difference in the type of pension schemes experienced by the older and by the more recent recruits was also offered as an explanation as to why there was little intergenerational discussion between colleagues about pensions. In addition, the data suggests that in some social circumstances pensions were viewed as not being a suitable topic of conversation.

P - They then started talking about pensions, and I said 'it's Friday night, we are in the pub, and I am not entirely sure I want to be having a conversation about pensions thanks very much'. [Laughs]

But the lack of apparent interest in pensions obscured actual interest in the topic and the social interaction between colleagues was greater than initially indicated. In many cases participants emphasised the role that colleagues played in encouraging scheme membership. As we saw in Chapter 5, some participants had periods of being unsettled in early adulthood and not all started saving for retirement when they first entered the workforce. The age that individuals first enrolled in the pension scheme appeared to be influenced by the degree of encouragement from more mature colleagues. These elders' role in initiating scheme membership and discouraging opt-out was of particular relevance to those participants who had delayed membership - at least one individual spoke of being

physically taken to the pensions department to enrol. Another noted that he *joined two years ago more out of being told off by my colleagues* [X].⁶⁶

Many participants were at a stage in their lives when they had begun to contemplate the passage of time and to reflect on the age difference between themselves and their younger colleagues. As an extension of this thought process they were developing an awareness, based on their own experience, that when they were younger they had had difficulty recognising the long-term benefits of pension saving⁶⁷. Some also reflected upon the fact that whereas current employment might be considered temporary, this perspective could change over time. How respondents reacted to this maturation process offers clues as to how they responded to the salience of pension-orientated conversations with older colleagues. Through their own actions towards younger colleagues the participants also shed light on the establishment of pension scheme membership norms in the workplace. A handful of participants considered it important to act as a mentor for younger employees and to encourage them to engage with the pension scheme.

I - You get the younger ones who say 'Oh I have opted out of the pension.' Why are you doing that! You know, you will retire at some point it is better to have something than nothing'.

Although it was not possible to establish the influence that participants had on the opt-out rate of their subordinates, it is likely that encouragement such as, *you need to get something right now, get it started* [P] ⁶⁸contributed to the take up of pension membership amongst younger and low paid employees.

The data also suggests that the issues surrounding the complexity of defined contribution pensions impacted on participants' ability to advise younger colleagues upon the merits of the workplace pension scheme. Enrolment in the pension scheme was more often talked

⁶⁶ X indicated that pressure had been exerted on him to provide financial security for his wife and this evidence is another example of social pressure to protect dependants that was discussed in Chapter 5.

⁶⁷ See J's comment in 5.3 regarding his father badgering him to join the pension scheme.

⁶⁸ Comment like this explain why, as was discussed in Chapter 4, individuals felt socially obligated to enrol in the pension scheme.

about than specific details about contribution levels. Promoting membership of the occupational scheme was not seen as either controversial or complex, but advising younger colleagues about the suitability of contribution rates clearly was.

I - I do encourage them, but that's about as far as my knowledge goes, and therefore it's difficult for me to advise on it.

D - I wouldn't know what to say to people like, no you should be putting in nine because like, other than the straight arithmetic of nine being bigger than three. I couldn't say what the long-term benefits are going to be.

However, there is some evidence of participants themselves having been influenced by knowledgeable older colleagues to alter contribution levels or to alter fund selection. The majority of participants believed that many of the younger employees viewed pension contributions as an expense; as a deduction from salary that could otherwise be spent on current consumption. On the other hand, an alternative approach, which was predominant amongst the participants contributing 6% or more, is that pension contributions are an investment for the future. The evidence points to some older colleagues being influential in encouraging the shift between perceptions of pension contracts from 'costs' into 'investments'. However, the critical point was that this transformation was facilitated by the older advisers having an understanding of defined contribution schemes. One female participant directly linked shifting her contribution from the 3% default to 6% to advice that she had received from an older former manager regarding the optimum level of contribution.

R - My last boss said to me you should always aim for 15% of your salary going into your pension, and that's always just been ringing in my head, so I try and make as much as I can to put in.

An illuminating illustration of the intergenerational information effect was described by one female participant who had previously worked for a company where one of the directors, who was familiar with the DC scheme, had taken an active role in explaining the workings of the pension scheme to the employees. Although this participant did not consider herself financially literate, in her previous scheme she had diversified her fund investments away

from the scheme defaults, in order to more adequately reflect her investment risk profile. She directly attributed this default deviation to the advice she had received from her older, more knowledgeable colleague.

The role that colleagues played in encouraging engagement with pensions was reinforced by the process of automatic enrolment. The prevalent belief amongst participants was that automatic enrolment facilitated the enrolment of younger and less settled individuals. For example, the participant who proactively encouraged her subordinates to join the pension scheme noted that she was only a member herself because of automatic enrolment.

I - If it hadn't just happened, to be honest I would probably just be looking at paying into a pension.

The evidence points to automatic enrolment facilitating the development of pension scheme membership as a norm in those who might otherwise not have joined. The evidence from this study also suggests that continuing membership, and to a lesser extent default deviation, was reinforced by the belief that behaviour was normative. It was assumed by individuals contributing both at the 3% and the 6% levels that their peers would be contributing a similar amount to themselves. So although pensions were rarely a topic of conversation, and although participants knew little about the actual level of their colleagues' contributions into the pension scheme, there was a presumption that they were conforming to the norm.

C - I would say my peers were probably doing the same thing as myself. I don't think I was the exception to the norm. I would say that most people I've worked with have been paying into the company pensions. It's kind of the accepted norm.

C's assumption about norms adds credence to Duflo and Saez's (2002a) findings that having co-workers participate in retirement savings plans can influence an individual's decision to also participate. *They argue that 'savings behaviour may be subject to social norms, leading to conformity in behaviour'* (Duflo and Saez 2002b p.816). Support for Duflo and Saez's point that *'individuals' decisions are influenced by the decision of others in their peer group'* also comes from the examination of the interviews of the few participants who had opted out after having been automatically enrolled. One foreign born participant in particular made

reference to involving her colleagues in the discussions to opt out.⁶⁹ This employee had joined the company on a temporary part-time basis⁷⁰ in the call centre prior to automatic enrolment being well established.

N - I think I discussed it with a few other students at that time which so happens they were also foreigners because we started off at the same time and we were in the same university, and we attended the same church. So I talked about it with a couple of them and I think they also opted out, to be honest, [laughs]

This was the only direct evidence from the interviews of a cluster of young peers opting-out, but their similar social circumstances may offer an explanation for their behaviour: the data suggests that for non-UK nationals the employment context was of particular relevance. The non-UK nationals all drew attention to the difficulties they experienced making decisions about retirement savings, primarily due to the lack of a trusted source to turn to for information and guidance. As we saw in the previous chapter, parental support and advice was both valued and influential. Several participants whose parents lived abroad referred to the lack of opportunity they had to discuss their pension arrangements with their parents and in addition pointed to their parents experiences being of little relevance in the UK context. Moreover, some of the foreign-born participants had little understanding of how state-sponsored retirement welfare worked in the UK. For individuals already in doubt about the portability of their pension pots⁷¹, the information deficit added to their difficulties. The evidence suggests that this combination of circumstances prompted individuals to turn to work colleagues for advice and behavioural cues.

6.1.1 Information deficit - the DB effect

The information being gleaned about pensions from colleagues was not always relevant and this primarily stems from the differences between DB and DC membership. The company had many long-term employees who were members of the DB scheme. The data suggests that older colleagues communicated the importance of joining the occupational pension

⁶⁹ There is also support in this example for the thesis that foreign nationals are more likely to opt out.

⁷⁰ See section 6.2 for the effects of temporary employment on pension contributions.

⁷¹ See Chapter 5.1 for further information on this theme.

scheme but rarely stressed the significance of contribution levels. For DB members pension contributions are effectively deferred salary and the critical decision points are at enrolment and when approaching retirement. For DC members, pensions are a complex investment product that requires financial skills and regular appraisal. The distinction between these two perspectives had implications for the validity of the information that DB members imparted and the degree of external information and advice that DC members needed to seek. For example, the information that those DB members were imparting to younger colleagues generally revolved around the topic of retirement timing and was not about the suitability of contribution levels. Consequently, although many participants understood that they needed to reflect on contribution levels, it was evident that few were receiving this type of information from those colleagues approaching retirement. The lengthy quotation below illustrates a number of points relating to this theme.

E - Here is quite a few that are fifty-three, fifty-four that have paid off their mortgage. They are very switched on about that and I have actually become a bit more conscious about that since moving to that team and though I am managing them, they have given me, just by their chat and everything. They are very switched on to information around retirement, pensions, stuff like that, mortgage payments, bits and pieces like that, which is quite interesting. It has been an eye-opener for me. It has made me look at my next stage in life I had planned. If I was still working in domestic, I wouldn't have been surrounded by that so I wouldn't have felt the need to. For certain, the peer group that I am surrounded by now certainly made me look a bit more seriously at, for example, when we buy a house next year, making sure ... that it is cleared by the time we hit sixty, sixty-five. You know, I am probably a little bit more cautious since coming to that side of the business because of the guys' chat.

The quotation emphasises the importance of older colleagues in the workforce for forward planning and critical reflection. It reveals that the participant believed that a difference in the age of her work colleagues has altered her engagement in, and knowledge of, retirement preparation. It also illustrates the type of financial information that was conveyed to younger employees. As was noted in Chapter 4, participants considered debt reduction to be important and mortgage debt redemption often took priority over making

additional pension contributions. The data suggests that, to some extent, this perspective was informed by the views of work colleagues. Previous research investigating the link between social learning and employee participation in company-sponsored plans indicates that there are weighted social effects, both demographic and hierarchical: employees being most influenced by employees of a similar age but of a higher status (Sorensen 2006). The evidence from the interviews suggests that it was not those of a similar age but, rather, older colleagues who were credited with having the most influence on participants' pension savings behaviour.

The conversations that the above-noted participant had with her colleagues reflected their concerns about retirement timing. The information that this individual received influenced the age that she felt it appropriate to reviewing her pension provision and appeared to have a direct effect on her behaviour.

E - And that is why I said I wouldn't do anything till I hit fifty, because as I say there is an awful lot of talk about your pension from some members of the team, but, of course, they are at that age where they are thinking or preparing for retirement.

This view of the relevance of age contrasts sharply with the views of a female who had received advice from an older colleague specifically relating to defined contribution schemes.⁷² She believed that attention to retirement saving should begin as early as possible and holding this view had encouraged her to increase contributions *to catch up*. [S]

R - I always thought that me starting a pension at twenty-five, twenty-six years of age I was already five or six years behind the game.

This evidence points to influences from colleagues being important for critical reflection about contribution rates. The extent to which individuals actively engaged with the problem of contributions and deviated from the default settings appeared to be influenced by the quality and appropriateness of context-specific advice.

⁷² Note also that the comments made in Chapter 5.1 about the relevance of age.

6.2 Job insecurity and erratic employment

Although most participants' early work experience occurred prior to automatic enrolment being commonplace there is evidence from the data that employment status is also important in an auto enrolment environment. The career history of many of the participants was one of complicated work patterns that included periods of under-employment, part time work, and temporary assignments. This section of the chapter examines how the development of participants' careers both impacted upon pension scheme membership and upon the extent to which they deviated from the default settings once enrolled. Analysis of the data leads to the conclusion that non-continuous employment and job insecurity is associated with a failure to enrol in a workplace pension scheme. An additional finding is that those individuals who did not feel committed to their careers were less likely to commit to pension saving.

Participants spoke about the difficulties of saving for retirement in certain types of employment, particularly low paid jobs, commission based work and subcontracting. Some also spoke about the effect that frequently changing jobs had on saving for retirement and they offered the temporary nature of previous employment as an explanation for their own lack of retirement saving. There were two facets to this; the contractual status of the job was pertinent, but the individual's perception of the permanence of their employment also had a bearing on their pension savings behaviour. The data suggests that fixed-term contracts have an impact both on pension scheme membership and on adherence to the minimum default. For example, several participants made the point that they had either not joined, or had opted out of workplace pension schemes due to the temporary nature of their contract. This behaviour stems partly from a reluctance to accumulate numerous small pension pots and partly from an assumption that pension funds would be left behind when the employee moved and would either not grow or would be lost altogether.

F - Yes, that's what it was. It was kind of 'do you want to start a pension?' And I was like, not really any point because I don't know how long I am going to be here sort of thing. I was only in companies six months to a year and always changing so I would have loads of different pensions everywhere.

Participants attached little importance to acquiring small pension pots, and appeared to be approaching pension saving from an employer-centric basis; viewing pensions as being primarily linked to employment, as is characteristic of DB schemes, rather than being portable individualised assets. Although some participants understood that DC pension pots could usually be transferred to the new employer, this point was most often made by those participants with single large pots. Transferring was seen as a burden both because of the administration involved, and the perceived complexity of the decision. There was a prevalent belief that small pensions from earlier careers were somehow ‘lost’, and this notion was most widespread amongst participants with small DB entitlement from the public sector⁷³. The cumulative effect of this type of thinking is that the participants with the most broken career histories usually had the most broken pension contribution records. One group for whom the issue of small pension pots was most pertinent was the non-UK nationals. As we saw previously, this group were less likely to feel settled and hence committed to long-term saving. Uncertainty about the portability of pension assets added to their reservations about increasing contributions.

Although the actual nature of the employment contract was important, how participants themselves viewed the permanence of their position was also of significance. A theme running through many of the interviews was the expectation of job mobility: when they joined their current employer many participants believed that they would remain with the company for only a short period of time.⁷⁴ Several participants made the connection between the expectation of leaving the company and either not enrolling in the pension scheme, or opting out after having been enrolled.

B - Yeah, that's always in the back of my mind. It was always a case of I'm not going to be here long term so, you know, it wasn't necessary to enrol.

Interwoven into the discussions about short-term assignments was an indication that participants make a distinction between jobs and careers. Careers were conceptualised in terms of permanence, and progression.

⁷³ How the researcher responded to this finding is discussed in the Researcher Reflections in Chapter 3.

⁷⁴ This was often linked to concept of settledness discussed in 5.2.

F - I want to settle down, stop jumping about and stay at one company and try and move myself up the ladder instead of jumping for a pound difference an hour.

It is not always easy to disentangle the relative influence of the temporary nature of employment and lack of perceived opportunities for progress, but there is evidence that stable careers are connected to critically thinking about retirement saving. For example, for those participants who had been automatically enrolled, the transition to a permanent position could act as a catalyst to examine current contributions.

K - My contract got changed from a year contract to a permanent contract and that was the thing that, yes, it was, at the end of January, that's when my contract switched, so it's actually not that long ago, so it made me think I'm going to be here for longer than I thought, so it's time to sort out what I'm doing. That was the stimulus to do it. Yes, I suppose I wasn't sure, initially I was on a one-year contract, because I had been seconded to another department, so it made, it was kind of, I will be here I'm not sure, but now I am permanent, it seems like a sensible thing to do.

As we saw in Chapter 4, participants felt an obligation to save for retirement. There were suggestions of self-admonition for lack of pension saving from those in permanent positions, (for example, using terminology such as 'ought to', but self-chastisement did not feature when individuals discussed retrospective lack of pension saving in employment situations they conceptualised as 'temporary'. The inference is that if a situation is viewed as being temporary there is justification for delaying decision-making and little 'requirement' for the individual to critically reflecting on their situation and make *sensible choices* [L].

K - And I think it kind of made me think, well I'm here as a longer term thing I need to look at what I'm doing and make some sensible choices.

The data also suggests that often change within the context of stability and career progression could have a galvanizing effect on contributions. As was noted in Chapter 4.1, participants intimated that the ideal time to enrol in a pension scheme was when joining a new employer. Changing employment circumstances within the organisation which were linked to promotion and pay increases could also act as a catalyst for increasing contributions.

P - I moved in to a more supervisory role, at which point I made a change, and then I moved into management role, so I then put in another change, and the last change that I had which goes up to a kind of more group level, I've made a change again.

Promotion usually coincided with the *times where extra money has been coming in* [H], so it is not possible to draw firm conclusions about the strength of the promotion effect. Although promotion might facilitate increasing contributions, it did not provide sufficient impetus on its own. There were several examples of individuals who had been promoted whilst at their current employer, but who had not increased contributions beyond the minimum - the data does not reveal how these participants allocated their additional income. However, the analysis does suggest that career progression and the assumption that pay would increase were integrated into how individuals planned for the retirement. As we saw in the previous two chapters, participants' savings strategies were based on the belief that they would increase pension contributions in the future. There was a presumption that they would be earning more, through promotion, as well as from pay rises and that there would be surplus income available to allocate to the pension scheme. All of the participants believed that their current employment was relatively secure and this was partly linked to the fact that they were working for a commercially successful utility company. There was also a belief that management considered the interest of their employees when making policy.

D - There are not going to be these suddenly turn around and cash flow problems and have to lay off however many folk - there is not that sort of culture.

As a consequence, most participants expressed confidence that they would be able to develop their careers within the organisation and there was a perception that the company offered opportunities for promotion and career diversification. The corporate culture reinforced participants' feelings of settledness and enabled them to plan for the future with greater confidence.

6.3 The role of the employer

We saw in section 6.1 that information and encouragement from colleagues could be effective in encouraging pension participation and increasing contributions, but the fact that automatic enrolment occurred at the point that employees joined the company meant that, in practice, new recruits rarely had an opportunity to discuss contributions or fund selection with colleagues prior to being enrolled. There was evidence that several participants opted for the default because they were being automatically enrolled and that their behaviour would have been different had they had more time to reflect. Research by Shani et al. (2012) shows that subjects choose default options more frequently when they have to make an immediate decision rather than after some delay and the findings from this current study supports that thesis. One possible driver behind this default adherence might relate to the information demands at the time that individuals took up employment. It may well be that because automatic enrolment occurred when employees were joining a new company the need to make a decision about pension default funds became subordinate to the demands of adapting to a new working environment. The extract below illustrates this point.

K - I think because, and making excuses for myself, having a new job is one of them, things were a way down my list of priorities, with all the bumf that they send through it was just one of these things that I read and thought yeah, I was more worried about my first day and making a good impression.

There was a supposition that choices might be different if they were made under different circumstances

A - I think I went into the default fund. I don't think I made a decision. I think at the time being new to the company, and I was moving house at the time as well, and I didn't look much into it. I just went with the default. I think if I had to sit down and look at it I would probably go for something a bit more aggressive

Recruits were introduced to a great deal of new information when joining the company and the complexity, or perceived complexity of *all the bumf* [K], prompted some individuals to initially opt for the default. Adherence to the status quo can be viewed as a rational course

of action when an individual lacks adequate information to make a decision (Haselton & Nettle 2006). Because automatic enrolment did not involve an obligation to make a decision, and because there was uncertainty about alternatives, individuals did not feel compelled to deviate from the default setting. Rather than make a more demanding, and potentially riskier decision, new recruits were able to opt for making no decision at all and yet still be invested in the pension scheme.

Automatically-enrolled scheme members initially relied predominantly on the quality of advice provided by their employer. New recruits attended an induction training course shortly after joining the company and this course included a seminar organised by the employing firm's pension department. Several of the participants referred to this seminar as their main point of information about pensions.

C - At my induction I discovered that I could up the pension contribution to 6% and the company would match that. I subscribed to that.

It was not possible to determine to what extent default deviation was encouraged during the seminars but there is evidence of at least two participants increasing contributions from 3% to 6% following the induction meeting. Although Sorensen (2006) argues that workers are influenced by the choices of colleagues, the data does not enlighten us to what extent this is relevant in the context of automatic enrolment and induction at the case study: New recruits had little awareness of the participation or contribution rates of other employees unless they were provided with this information during induction, and there is no concrete evidence that this information was made available. However, it is highly probable that there was peer group pressure during induction sessions. One participant referred to the effects of group peer pressure at the induction session of a previous employer.

D -....he came to this health care plan and every single person at the table was head down at the table filling this form in and I was thinking to myself couldn't understand why you would want this. You know, we have a national health service. I couldn't see where any benefits would be for me but I still, looking at this almost peer group pressure, still filled this in.

Default deviation at induction could have been a consequence of information about the benefits of the employer's match being presented in a more easily accessible format. The pension information made available to participants was comprehensive: individuals were able to access on-line information about the occupational pension scheme and once enrolled could log in to make changes to their fund selection.

However, in order to profit from pension information, individuals needed to know what questions to ask. Consequently, for the less financially confident participants, there were barriers to accessing information. The data suggests that it was not so much the amount of available information that was relevant but, rather, the individual's ability to process it.

The way in which the information was given to employees seems to be of some relevance; electronic communications received prior to the induction seminar were not effective in prompting participants to critically assess pension contributions, whereas being able to discuss the pension scheme in the seminar was effective. The importance of face-to-face communication during tenure was also emphasised. Those participants working in the head office rarely perceived any issues with accessing pension information.

Q - We do have people who work for (the company) who are in pensions. It is always an open door and you can go and chat to ... It is not hidden away, if you like, from employees... So they make a point of saying, look you have got any questions these are the people to go and see.

There were several examples of participants shifting contributions from 3% to 6% in the months immediately following recruitment to the company, and although employees offered a variety of reason for this, one explanation was that time was required to assess the suitability of the default contribution rate. Looking at contribution rates, there is evidence that those who had voluntarily⁷⁵ joined the scheme rather than being auto-enrolled were more likely to deviate from the default contribution rate (both upwards and downwards). One explanation for this is that those who actively joined the scheme were more likely to have spent time reflecting on their savings objectives and to have had an opportunity to gather information from colleagues. The possibility that automatic

⁷⁵ See Appendix C for breakdown of participants' enrolment experience.

enrolment interferes with the course of reflection was raised by one participant who suggested that it is that the process of automatic enrolment itself that encourages employees to accept defaults.

N - I know when I tried to re-join back into the scheme before automatic enrolment I asked them for the information, which they sent me, and at that time I was already reviewing which one I wanted it to go into. But, since it was done automatically I didn't actually bother, I just left it as the default.⁷⁶

6.3.1 Trusting the employer

The case study employer was an early adopter of automatic enrolment and had been automatically enrolling new recruits for several years. The visibility of the HR personnel had also increased in the run up to legislated automatic enrolment and they had been organising pension seminars in the branch offices. Possibly as a consequence most participants held the view that their employer actively promoted pension scheme membership. This perception reinforced the belief that scheme membership was a recommended course of action.

R - Here they start, and at my last employer as well, they very much encourage you to enter into the scheme.

The data also suggests that the perception that membership was endorsed was reinforced by high levels of trust at the organisational level. There was evidence that some of the less financially confident individuals trusted that their employer had indeed set the rate at an appropriate level to provide a reasonable, albeit not generous, pension. Moreover, as the quotation below illustrates, even some individuals with experience of higher contribution with previous employers had trusted in the appropriateness of the 3% default rate to meet their own circumstances.

K - I didn't really consider it, to be honest. Again, because I trusted them, I just thought, if they've decided 3%, there must be a reason for it, it's all good [laughs.]

⁷⁶ This participant was automatically enrolled in the company-wide sweep of non-members following the enactment of the workplace pension legislation.

The incidence of trusting the employer was particularly prevalent when participants were discussing their choice of investment fund. It is common practice in DC occupational pension schemes to offer scheme members access to a range of additional investment funds and this was the case at the research site. Members had a choice of over fifty investment funds and they could choose to spread their investment in up to ten funds, which they could switch as required. As was noted in Chapter 4.3, there was very little evidence of participants shifting from the default investment fund. Several of the participants had experience of diversifying their investments whilst invested in previous occupation pension schemes but only two out of the twenty-five had shifted their contributions from the default fund in their current scheme. Those who took an interest in investment choice were aware that it could be advantageous for younger individuals to elect for high-risk funds and, because the default fund in the pension scheme has a lower-than-average risk profile, one might have expected these young, financially literate participants to have moved away from this fund. Indeed, there were several instances where individuals expressed a preference for a higher risk profile than that provided by the default fund but, as the extract below reveals, participants generally did not follow through on their risk preferences when they were automatically enrolled.

C - Often I end up going for the default option, I've got to say. It is difficult to assess. I would tend to say I am a medium, higher risk, just by my nature and approach to it I think. I am most likely with the default

Participants were questioned about fund choice during the interviews but, although default adherence sometimes contradicted investment preferences, it was generally believed that those involved in running the pension scheme could be trusted to make investment decisions on employees' behalf. The search costs for shifting from the default investment funds are considerable - substantial time is required to investigate the array of funds and, as was previously discussed, default adherence can simply be a consequence of time constraint.

V - Don't think I have got the time to start looking into all sort of funds. So I guess I just leave it to the experts if you like so I kind of trust it in that way.

The most common explanation given for remaining in the default fund was that participants felt that they lacked the financial knowledge or skill to make decisions about fund selection and they assumed that they could trust their employer to make these decisions on their behalf. Some participants felt that the default fund had been chosen by experts, the underlying assumption being that the selection was for the benefit of employees and that, consequently, there was no need to consider switching funds.

B - My kind of view was well if the company have got experts in to make decisions like these for us so why wouldn't I? They are definitely you know, probably more qualified to make the decisions than I am so I just, I took that kind of stance, really.

As noted in Chapter 4, participants understood that continuing with the minimum default contribution rate might produce a pension that would be inadequate for their personal circumstances and many had already increased their contributions. However, this proactive behaviour did not extend to fund choice and even most of those who took an active interest in their retirement savings had remained invested in the default fund. As the quotes below illustrate, there was a presumption that the pension fund managers were acting in the best interest of the individual and evidence that participants trusted in their abilities.

D - But I've never sought out too much information on it. I have just assumed they know what they are doing.

O - I am in the default fund. I do need to look at whether some of the other funds would be better so that is something I will look at to see whether I need to switch. I suppose we sort of trust they are putting it in the right place.

Previous research into pension savings has revealed significant lack of trust in the financial sector and it has been hypothesised that low pension savings rates are a consequence of previous financial scandals (Clery et al. 2010). The current research was conducted in the aftermath of a banking crisis and it might be expected that the financial climate would have lowered participants' trust in the pensions industry but, contrary to expectations, there was little indication that, in the majority of cases, suspicion of the financial sector was restraining contributions. Participants were more likely to express trust in the pension scheme management than to express distrust. The explanation for this, apparently

incongruous, finding most likely lies in the participants' failure to distinguish between their employer and the pension fund managers. The analysis suggests that some of the participants viewed the pension managers and the employer as synonymous. Notice how, in the following quotation in response to the question, *Do you trust the pension provider?*, the interviewee answers with reference to the employer and not to the fund management company.

E - Yes, absolutely. I think if it had been in the higher risk bracket, no, and I can't afford to play fast and loose, not that it would be, but I trust [the employer] implicitly.

Participants did not always make it clear that they understood the difference between the roles of the pension provider, whose job it is to manage the investments and their colleagues in HR. The employer took a proactive stance in encouraging scheme membership and encouragement was increased in the run up to legislated automatic enrolment. Because HR was deemed competent, it was assumed that the pension scheme has been designed to meet the needs of the individual employee, and by extension, the underlying funds would be well-managed. This endorsement effect appears to be magnified in circumstances where participants had a high opinion of individual employees who worked in HR.

E- I went with the default because I presume that that had been the one. I'm not a financial type person. The guy that manages our pensions [the pensions director], I think he is brilliant. And if he says it's good then I'll go with that.

The data indicates that implicit endorsement was prevalent, and that the participants were more likely to trust in the employers' greater expertise when the decision was considered complex. The identification of the health of the pension fund with the financial success of the employer was also apparent. The participants all held their employer in high regard. This primarily derives from the fact that the company had been expanding in recent years and offered secure employment conditions and promotion prospects: pay was relatively high and employees had recently received a pay increase. The company also pays particular attention to the health and safety of its workers and the employees generally perceived the company as being a caring employer. The reputational goodwill had spill over effects onto

the perception of how well the pension funds were being managed.

A - It such a big company that it would be reputational risk to gamble. I think so, I think that the company is making profits and doing pretty well. That makes you assume the pension will be fine. It could be a false assumption.

6.4 Discussion

This chapter has drawn on the data from the interviews that relate to the working environment. The findings from the on-line questionnaire data indicated that few respondents had asked colleagues for advice prior to enrolling in the pension scheme. The initial responses to the interview questioning also suggested that pensions were not usually a topic of conversation between colleagues. These findings would appear to justify the lack of attention that has been paid to the topic of colleagues in the pension's research literature. However, as the previous paragraphs have indicated, the analysis points to the work environment being important in ways that were not initially recognised when participants reported on the frequency of pension-based conversations.

There are three discrete areas of colleague interaction that were found to have an influence on default adherence into the workplace pension scheme. Firstly, the narratives clearly indicated that older colleagues were effective in directing some of the participants to enrol in the pension scheme and that some participants with managerial responsibility encouraged junior colleagues to engage with financial products provided by the employer. This intervention appeared to reduce opt-out behaviour. Secondly, colleagues provided information on pension schemes and retirement strategies, and older workers with an understanding of DC schemes were credited as influencing some participants to deviate from contribution and fund defaults. Acting as a counterpoint to this, subliminal influence from DB members appears to have the effect of lulling participants into complacency about the needs for early action. Finally, the competency of HR personnel and the promotion by management of a trustworthy corporate culture also appears to be of some significance.

6.4.1 Intergenerational knowledge transfer

As the results have indicated, the transfer of pension knowledge to the younger generation was of some relevance. Intergenerational transfer of knowledge about funds and DC outcomes encouraged default deviation, but for some individuals who were working with older colleagues, the emphasis on retirement timing deferred decision-making. The literature that discusses knowledge transfer in the workplace largely approaches the topic from the organisational perspective, viewing knowledge transferable as knowledge pertinent to the functionality of work. Intergenerational communication and transfer of job-related knowledge is viewed as a strategy to be pursued for the benefit of the employing organisation (Argote & Ingram 2000). The knowledge-transfer of non-functional topics such as retirement savings receives scant attention, although Sorenson (2006) links general increases in pension membership following retirement seminars to social learning effects as attendees pass on the knowledge acquired to their non-attending colleagues.

Understanding the processes of knowledge transfer between colleagues is important because individuals were often relying upon advice on pensions from older members who did not share their experience of DC pensions. For DB members, the process of decumulation was important, particularly with reference to the level of commutation, annuitisation, and protection for dependants and thus the information that DB members transmitted primarily concerned retirement timing rather than the suitability of contribution levels. The evidence suggests that younger employees did not always filter this information to suit their personal circumstances so the agency and reactivity of the younger generation was, to some extent, constrained by the structure of pension contracts that did not apply to them. The priorities of the older generation and their different pension scheme experience may explain why there were collective notions about the ideal timing of retirement but a lack of collective agreement about the ideal contribution into the pension scheme. However, the results also suggest that, where knowledge transfer is provided by individuals with experience of DC schemes, age diversity in the workplace could encourage pension engagement and default deviation. Although there is some research into the effects of age diversity in the workplace in relation to employee benefits, (Dencker et al. 2007) the

findings from this current study suggest that this is an area that merits additional research with specific reference to pension knowledge and participation.

6.4.2 Job security and future planning

The second area of interest that merits comment is that the career history of many of the participants was one of complicated work patterns that included periods of under-employment, part-time work, and temporary assignments. Job insecurity and erratic employment were offered as an explanation for not saving for retirement, and participants drew a distinction between jobs and careers when thinking about occupational pensions. One explanation for lack of saving could be that *'the ability to think and plan ahead is affected by the amount and security of resources that people command'* (Rowlingson 2002 p.640)

There is existing empirical evidence of a positive correlation between employee tenure and pension scheme membership and default adherence: although the effect of tenure is reduced under automatic enrolment it is never-the-less still present (Beshears et al 2009). The analysis from this thesis suggests that it is the circumstances surrounding tenure which are of relevance, including the perception of secure employment. How committed individuals felt to their careers and how settled they felt in their personal lives was viewed as important for future planning, and entering 'career' employment could act as a catalyst for reflecting upon retirement saving. This study highlights that how individuals feel about the permanence of their career is of importance: employment that is *perceived* as a temporary job rather than a long-term career detrimentally impacts on pension contributions.

As O Rand (1996 p.230) noted *'there is a bias in pension's research that considers careers as a relatively sustained sequence of full time jobs'*. Complex and extended transitions into settled employment are usually associated with the disadvantaged and not with the *'choice biographies of the affluent'* (Furlong et al. 2006 p.3), but this project adds to the debate by drawing attention to the fact that discontinuous career histories are not the preserve of the low-paid or the poorly educated

It is only rarely that the academic debates about flexible working practices and pension provision have paid attention to white-collar fixed-term workers. In his examination of the Italian welfare system Jessoula (2012) noted that temporary contracts, although not necessarily leading to discontinuous careers, impact on pension outcomes. Jessoula's interest is in the uneven consequences of structural employment flexibility and he does not dwell on the causes of behaviour, but the analysis from this current study supports his conclusions that career discontinuity can have discriminatory effects on pension provision but this current study sheds light on the phenomenon by highlighting that many individuals tend to defer critical reflection and 'sensible' behaviour whilst under temporary contracts.

The study adds original insight by demonstrating that, even if employment is not discontinuous, the lack of a permanent contract can encourage default adherence. The findings are of relevance to the policy debate on flexicurity because a move towards more flexible contracts, whilst offering advantages for employers, could lead to delays in financial decision-making and have long-term detrimental impact on the individual's efforts to save for retirement.

6.4.3 Norms and employer endorsement

Throughout this thesis evidence has been presented that supports the view that the employer is influential, whether purposely or not, in directing the savings behaviour of employees. It was noted in the background to the case study⁷⁷ that the HR department had taken a proactive approach to pension provision and that the company was an early adopter of automatic enrolment for new employees. This chapter has provided additional evidence pointing to the proactive stance of the employer in facilitating changes to the default after enrolment: The employer organised induction seminars during which the pension scheme was explained, and employees were offered on-line access to fund information. Some commentators believe that the level of financial information available to individuals is of importance and point to the correlation between employer-sponsored education schemes and pension saving (Lusardi et al. 2009, Bernheim & Garrett 2003). This study provides some supporting evidence of the pension seminar information effect on default deviation; we see

⁷⁷ Appendix B.

individuals increasing contribution after inductions - although there is a hint that social pressures might be at play.

Considering the default through the lens of social norms, opting for the 6% match rate after the seminars could be a consequence of what Everett et al. (2015) refer to as injunctive norms (following a recommended course of action) and descriptive norms (emulating the behaviour of the majority). Everett et al. propose that descriptive norms are of most relevance to default adherence and the analysis of the data from this current study provides some support for that hypothesis. Arguably the cumulative effect of promoting pension savings to new employees led to the establishment of scheme membership norms amongst the majority of workforce. However, at the seminar group level, it was less clear which influences were at play. Further to the discussions above, default deviating could be a consequence both of informational effects, injunctive norms, and mimetic behaviour.

Only a few researchers have explored the possibility that social norms in the workplace, might play a role in determining the extent to which employees participate in occupational pension schemes: Duflo and Saez (2002b) point to mimetic behaviour in retirement saving and concluded that a desire for conformity is a likely explanation. The lack of research may partly be because social norms, being an abstraction of complex and dynamic interaction, are difficult to conceptualise for quantitative researchers (Xenitidou & Edmonds 2014). Regrettably, the research design of this present study did not allow for a deeper exploration of the effect of norms (however they might be conceptualised) on default adherence: It was originally hoped that the on-line questionnaire would reveal clusters of normative behaviour at the regional offices, but because of the high levels of scheme membership, the analysis of the quantitative data did not prove conclusive, and it was not possible to disaggregate responses at a departmental level.

It is suggested that institutionally derived defaults are interpreted as being 'implicitly endorsed (McKenzie et al. 2000, Brown & Krishna 2004). The near consensus amongst participants that one should not opt out of being automatically enrolled may partly be explained by the membership defaults being interpreted as being endorsed by the employer. And although participants rarely perceived the 3% contribution rate as the recommended option for middle management, it was assumed that the employer had

chosen a suitable default for younger employees. The evidence also suggests endorsement effects in investment fund choice in this current study. Previous investigations of default persistence has revealed that default adherence of fund allocation is more prevalent than default adherence of contributions and it is speculated that endorsement effects are strengthened because of task complexity (Madrian and Shea 2001). Offering an extensive range of similar alternatives leads to procrastination, and this effect is more pronounced when choice is perceived to require expert opinion (Sethi-Iyengar et al. 2004). It is claimed that the more complex the decision, and the greater the search cost involved in obtaining adequate information to make that decision, the greater the likelihood of default adherence.

The study also noted high levels of trust in the employer's ability to manage employees' pension investments on their behalf. The genesis of the participants' trust in their employer stemmed from the corporate culture: many of the features of the company culture mentioned by participants, such as communication, job security, career progression, and concern for employee well-being, are believed by theorists to directly enhance trust because they sent signals of the organisation's benevolence (Schoorman et al. 2007, Carnevale & Weschler 1992). There was a perception that management considered the interests of their employees when making policy, although it was not always clear whom the participants were actually trusting. There were a variety of levels of trusting relationships, from immediate working relationships, to trust in HR management, and to higher abstract principles such as trust in the organisation as an entity. One weakness of the research design was that, because of the homogeneity of the research participants, it was not possible to ascertain whether the high level of trust was specific to the participant group or was a companywide phenomenon. Searle and Dietz (2012) point to higher-ranking employees having greater organisational trust, and it is therefore possible that trust-induced default adherence would not be as significant amongst lower-ranking employees. On the other hand, Madrian and Shea (2001) point to default adherence being more common amongst the lower-ranking, the young, and the low-educated, which would suggest that the employee-employer relationship is relevant to default adherence across a wide range of employees. Webb et al. (2014 p 608) suggest that trust could be a strategy to deal with the

uncertainty of pension outcomes, in the sense that '*confusion about what to do is removed by trusting 'experts'.*

Surprisingly, the role of corporate culture has received such little attention in the pension literature. The seminal studies on automatic enrolment and default adherence mention employer endorsement effects in passing but otherwise pay little attention to the role of the employer-employee relations (Beshears et al. 2009; Madrian & Shea 2001). The conclusion that one draws from the automatic enrolment literature is that, with the exception of the employers' contribution match policy, corporate culture does not seem to be relevant. Those theorists who approach pension savings from a social policy perspective have also been negligent in incorporating corporate culture into models of pension savings behaviour. Although the literature is rich in public sector/ private sector comparison (Cutler & Waine 2013; Hutton 2012) there is a lack of cross-company research. In addition Johns (2006) draws attention to the lack of contextual information in the field of organisational behaviour and he calls for greater contextualisation of research. By showing that the organisational characteristics of the employing company influence the behaviour of the individuals under investigation, this PhD study adds credence to John's entreaty. The findings suggest that the influence of corporate culture on the savings behaviour of auto-enrolled employees merits deeper investigation.

6.5 Summary of the research findings

As the presentation of the data analysis has unfolded a number of apparently disparate topics have coalesced into several broad themes. The study has shown that, initially at least, continuing pension scheme membership following automatic enrolment had greater significance to individuals than achieving adequate funds for retirement. Pension scheme membership was of social significance, by being enrolled in the workplace scheme, members conformed to social norms, demonstrated responsible behaviour, and were able to avoid future regret at not having saved for retirement. Individuals sought to establish a balance between the present and the future, and they allocated assets accordingly, but the relative importance attached to time-periods was contingent upon life trajectories. Settledness, both perceived and actual, was important for establishing savings patterns and for future planning.

This study points to a dichotomy under automatic enrolment between the motives for pension scheme membership and the motives for changing from the default settings. The latter was substantively linked to critical reflection on pension adequacy as a consequence of the maturation process. Significant stages in the transition to maturity included household formation and parenthood, and for some, the acceptance of responsibility for parental well-being.

But the extent to which life course impinged upon pension scheme membership, contributions levels and fund selection, was influenced by intergenerational dialogue and workplace interaction. The influence of HR policies permeated the entire pension savings process and the architecture and promotion of employer-sponsored financial products impacted on asset diversification. The age-profile of the employees in the organisation and HR endorsement of pro-saving policies created an environment that shaped the salience of saving for retirement. Employer endorsement effects facilitated the establishment of pension membership norms which, in turn, further increased membership. The level of the employer's matching contribution influenced how participants responded to the default levels, and in addition, the presence of other employer-sponsored savings plans steered supplementary savings into share ownership. The promotion of pensions through workplace education impacted upon contribution levels, and high levels of trust both enabled confidence to plan for the future and encourage delegation of decision-making to the employer. In short, this PhD research project has demonstrated that the presence of the employer permeates the entire pension savings process.

The following concluding chapter will draw together the themes raised in this thesis and will offer a synthesis of the way in which the working environment interacted with the social lives of the participants to shape their retirement savings behaviour.

7 Different Defaults – Different Decisions

In the preceding three chapters, the findings from the qualitative interviews have been presented thematically with reference to the subsidiary research questions. This chapter draws together some of the findings introduced in those chapters and further discusses them in relation to the three distinct defaults found in the workplace pension scheme. In the pension scheme in this investigation there were three default settings to consider: firstly, the employee was defaulted into membership of the scheme. Secondly, employee contributions were set by the scheme default - in the example discussed in this thesis the contribution default was set at 3% although there was a financial incentive to increase the employee contribution to 6%. Thirdly, the workplace pension scheme included an investment fund default. Much of this thesis has discussed contribution defaults but all three types of default are legislated for in the National Pensions Act (2008), and individual responses to each of them are relevant to this investigation. This chapter will discuss each default type in turn and, since it is appropriate for a PhD thesis with its genesis in Social Policy, it will introduce some of the policy implications or recommendations that may be relevant in light of the hypotheses that have arisen from this exploratory research.

7.1 Membership defaults

The investigation revealed that all of the participants believed that it was important to save for retirement. As discussed in Chapter 4.2, pension scheme membership was interpreted as having put down a 'marker' for retirement and there was no indication that acceptance of membership following automatic enrolment was motivated by attempts to meet specific savings goals. One explanation for the widespread continuing membership following automatic enrolment is that the participants (in particular, the less future-orientated individuals) were influenced by social forces – primarily, encouragement from elders, including parents and managers, but also from behavioural norms in the workplace. Parents were credited with the formation of financial attitudes and with encouragement of saving-orientated behaviour and, as was discussed in Chapter 5.4.3, the principal reason that was offered for 'early' enrolment into a workplace pension scheme was parental influence. Webley and Lea (1993) suggest modelling as a likely conduit for financially-orientated

behaviour, but references that some participants made to parental approval⁷⁸ of their actions suggest that modelling is not the only conduit for continued transmission of intergenerational financial socialisation in adulthood. However, at this juncture, a caveat needs to be inserted - the socio-economic background of the participants will have had some impact on their pension-related social expectations (Rowlingson 2002) and it is not to be assumed that parental influence in favour of pension scheme enrolment will be equally relevant to other social groups.

In addition to responding to parental influence, participants noted the encouragement given by older adults in the workplace to young individuals to refrain from opting out of the workplace pension. In Chapter 6.1, it was demonstrated that older colleagues had been effective in encouraging some of the participants to enrol in the pension scheme. It was also found that several participants with managerial responsibility encouraged junior colleagues to engage with financial products provided by the employer. Thus the demographic composition of the employing organisation may have been of some relevance in explaining the widespread acceptance of the membership default. But one should not conclude from this study that, conversely, lack of elder encouragement for pension scheme membership directly led to deviation from default membership. Those individuals who had opted out of automatic enrolment (as opposed to not joining voluntarily) had done so because they believed that their employment with the firm would be short-term. As was discussed in Chapter 5.1, there was a prevalent belief that small pension pots might be lost and, hence those individuals who were considering leaving the UK were incentivised to opt out of membership.

Arguably, the age of the participants could have had some bearing on their willingness to accept default membership. Previous researchers have confirmed age as a determinant in retirement planning (Thomas et al. 2009), and identified a significant increase in voluntary enrolment in workplace pension schemes by individuals between the ages of 24 and 34 (Smith 2006). All of the individuals interviewed for this project were older than twenty-two

⁷⁸ See G & H's comments in Chapter 5.2

years of age⁷⁹ when they were first automatically enrolled and only a few had been pension scheme members when in their early twenties - which would appear to support the premise that age is relevant to enrolment. However, examination of the results from the 'Saving for Retirement Questionnaire' revealed that almost 90% of eligible employees in the case study were members of the workplace pension scheme (and this percentage rose following legislated automatic enrolment). In addition, drawing upon the questionnaire data presented in Appendix D, further analysis uncovered that there was no significant difference in membership levels at the case study employer between those employees aged in their twenties and those in their thirties.

In Chapter 2.3 the point was made that age might not necessarily be of much importance post-implementation of automatic enrolment in the UK because of the shift from voluntarism to quasi-obligatory scheme membership for employees over the age of 22. The conclusion that one draws from the investigation of the membership defaults is that automatic enrolment was, indeed, successful in increasing membership among the younger age group.⁸⁰ This thesis hypothesises that near universal scheme membership at the research site resulted in age ceasing to be a significant factor in pension scheme membership uptake. If this hypothesis is found to be correct on a national scale then these findings could be of relevance to future pension policy. The 2008 National Pensions Act includes all employees aged over 22 in the automatic enrolment provisions but, from the evidence presented in this thesis, there is no reason to presume that it would not be possible to lower the age of enrolment. Indeed such a policy change might be advantageous since it would contradict the belief, referred to in Chapter 4.2, that saving for retirement was less relevant for the young.

An explanation for the widespread acceptance of default membership at the case study employer may lie with the employer's pro-saving HR practices - policies which effectively endorsed pension scheme membership. Prior to the legislated implementation of automatic enrolment, the employer had voluntarily been automatically enrolling new employees into

⁷⁹ The National Pension Act (2008) sets the minimum age for automatic enrolment at 22. There was no minimum age at the case study employer and the scheme included members as young as 16.

⁸⁰ Analysis of the questionnaire responses revealed that opt-out rates for employees under 22 were below 10%.

the workplace pension scheme. It is probable that this action had the effect of increasing scheme membership. The employer had also introduced salary sacrifice in the year prior to this research study, and had been active in informing employees about the implementation of the automatic enrolment legislation. Amongst those factors previously identified as prompts likely to encourage pension saving are whether an employer organises or contributes to the pension scheme (Taylor et al. 2009 p.79). Several of the participants had altered their retirement savings behaviour in the year prior to the study and it is possible that the recent actions of the employer acted as prompts for those individuals.

This thesis hypothesises that membership norms developed as a direct consequence of the employer's promotion of pension savings; the cumulative effect of automatically enrolling new employees being that, after a number of years, scheme membership rose. Arguably, as a consequence of what Everett et al. (2015) refer to as descriptive norms, employees uncertain how to respond to automatic enrolment referred to the behaviour of the majority of the workforce for clues as to the appropriate response. The gradual rise in membership may also explain why those individuals who had previously elected not to be members of the scheme, but who were automatically enrolled in early 2013, did not subsequently opt out. This mimetic behaviour can be seen as an example of a process that Rowlingson (2002) describes as a social network influencing individual planning: the decision to remain enrolled in the pension scheme reflected the behaviour of others and did not derive from the individual's own retirement needs.

An additional explanation for the near-consensus amongst participants for continuing membership following automatic enrolment may be that individuals were reacting to the wider environment. In Appendix A it is noted that, at a national level, private sector pension scheme membership declined in the decades prior to automatic enrolment and that some commentators attribute much of this decline to the removal, in 1988, of the right to make pension scheme membership a condition of employment (Blake 2003 p.311). It is possible that the shift in UK government policy from voluntary pension scheme provision to compulsory automatic enrolment produced institutional endorsement effects (McKenzie et al. 2006). As we saw in Chapter 4.3, private pension provision was viewed by all of the participants as a necessity because of the inadequacy of state provision and several of them

expressed doubts about the viability of the state pension. The inter-relationship between lack of state provision, Government promotion of automatic enrolment, and the individual's acceptance of membership goes beyond the remit of this thesis but this is an area that merits deeper investigation.

7.2 Contribution defaults

When an individual encounters a contribution default they are confronted with two decisions. The first is whether or not to accept the default. The second decision is which alternative contribution level to select. The first paragraph in this section discusses the reasons for some participants' acceptance of the default setting of 3%. This is followed by a discussion of some of the motives for selecting alternative contribution rates.

Consistent with much other research into retirement savings, this study found that few participants attached importance to pension saving when they were in their twenties (Clery et al. 2010, Thomas et al. 2009). Although age appears to have little relevance to membership under automatic enrolment, relative youth does appear to be implicated in adherence to contribution defaults. Adherence to the default settings in the pension scheme under investigation can be partly explained by the fact that some of the individuals in this study were automatically enrolled prior to being at an age or stage in their lives when they felt it necessary to reflect on retirement saving outcomes. Although automatic enrolment facilitated scheme membership, there is no evidence that it prompted reflection upon the adequacy of contributions to meet retirement needs. This thesis suggests that automatic enrolment creates a dichotomy between the decision-making process behind pension membership and the decision-making process behind selecting a pension contribution rate - decisions which, under voluntary enrolment, would most likely occur at the same time.

Some participants attached little significance to the level of their contribution and were deferring consideration of retirement needs until later in life. A very small minority

appeared to have given no thought whatsoever to retirement saving,⁸¹ but it was more often the case that adherence to the contribution default derived from a conscious decision to prioritise current expenditure over pension saving. As was discussed in Chapter 4.2, individuals sought to establish a balance between the present and the future and allocated assets accordingly. Expenditure took a variety of forms: some participants directed resources to current consumption and to life experiences and, although such behaviour might be considered sub-optimal from an ‘income-smoothing over the life-cycle’ perspective (Benartzi & Thaler 2004), such spending did reflect how the individual derived utility at that point in time.

However, as we saw in Chapter 4.2.1, low contributions into the workplace pension scheme did not imply that participants were not building up assets for the future. For some, once pension membership had been achieved, mortgage redemption was higher on their hierarchy of asset accumulation priorities than increasing pension contributions. This behaviour may have been driven by the perception that housing was more secure than pension assets invested in financial markets. It was rare for participants to consider their own property as an asset to provide retirement income; mortgage redemption was more often seen as a means to achieve long-term housing security. The willingness of participants to discuss their financial details and the extent to which they expounded upon reducing mortgage debt would suggest that this area of financial planning is of considerable significance to the individual. It may be, as was suggested in Chapter 4.4.2, that because of its visibility, a reduction in mortgage debt was of greater importance to participants than increasing pension contributions. And although participants rarely reflected on the financial value of their pension pots, it was not clear whether having that knowledge would have significantly altered their priorities. The participants’ behaviour in response to housing has revealed that individuals can be committed to saving for retirement but concurrently make active decisions to commit minimal resources to a pension scheme. It cannot be assumed that an individual who is contributing at the minimum default setting is not building up other assets for the future. The conclusion that is drawn from this study is that minimum

⁸¹ T was not certain that she was enrolled in the scheme although she had presumed that she would not have opted out. She did not know how much she was contributing nor did she know if the employer contributed on her behalf.

contribution default adherence can be a consequence of the individual attaching low priority to building up assets in the pension scheme rather than a lack of future-orientated savings per se.

Various complex motives lay behind deviation from the 3% minimum default but these could be viewed under three broad themes. Firstly, changed circumstances in the individual's personal lives often acts as a prompt to reconsider the adequacy of the minimum default setting to meet their future needs (and prompt voluntary enrolment by those individuals who were not previously engaged with the pension scheme). As was identified in Chapter 5.1, how settled participants felt in their personal lives was viewed as important for future planning. 'Settledness' could be achieved by, for example, establishing a career, receiving promotion, committing to a location, or committing to a relationship, and all of these events were linked to contribution default deviation. The evidence suggested that planning for a family prompted discussions about the future and this critical reflection induced proactive future-orientated savings behaviour. The wish to protect dependants exerted a powerful force on participants to save more for retirement. Relationships were also implicated in contribution default deviation - it was hypothesised in Chapter 5.2 that men sought to achieve pension parity with their wives! Efforts to achieve financial autonomy amongst divorced women were also implicated in default deviation. The passage of time, and the increased salience of the need to save for retirement as parents aged, were also identified as drivers to reconsider the adequacy of current pension contributions.

Secondly, there is some support for the viewpoint, discussed in Chapter 2.4.2, that the source of financial advice is important, especially since individualised advice from pension specialists impacts upon savings decisions (Clark et al. 2009, Borsch-Supan et al. 2008; Mitchell & Utkus 2004). This study found that although financially confident individuals were able to access financial information provided by the employer, precisely-targeted information from a trusted and knowledgeable source was also implicated in contribution default deviation. Financially confident parents, colleagues, and IFAs with an understanding of DC schemes were mentioned as influences by some participants who increased contributions.

But, although life events and financial advice could both act to spur increased contribution rates, there was some doubt about whether all of those individuals who had deviated from the minimum default had actually reflected upon the adequacy of their pension contributions. The distinction between the intention to save more and the motivation behind how much to save may be subtle but it is an important one because, although automatic enrolment facilitates individuals enacting an intention to save for retirement, there is no evidence that it encourages consideration of pension saving adequacy. Specifically, it is not clear from this study whether all those individuals who had opted to enrol at 6% had done so because it was an option presented to them at enrolment, or because they had previously reflected upon the likely outcome of saving at that level. Some other default deviation appear to be prompted by opportunity, (so, for example, pay increases facilitate increased contributions).

Thirdly, the employer has a role to play in encouraging deviation from the minimum defaults. Researchers have pointed to an association between employer-sponsored education schemes and pension saving (Lusardi et al. 2009, Bernheim & Garrett 2003). This study provides evidence, in Chapter 6.3, of the pension seminar information effect on default deviation; some participants increased contribution after induction seminars, although those increases were bounded by the scheme architecture. In other words, individuals increased their contributions to the level of the employer's matching contributions but rarely beyond it.

The influence of the matching contribution upon employee behaviour has received extensive research attention from behavioural economists (Engelhardt & Kumar 2007, Beshears et al. 2010). This study accords with the suggestion that the match acts as an inducement to increase contributions, but it also agrees with the observations of Huberman et al. (2007 p.3) that the match acts as brake on higher contributions because of '*participants' tendency to contribute at the upper limit of the employer's match.*'

In addition, as discussed in Chapter 4.4.3, the company's Share Investment Scheme (SIP) also appeared to act as a restraint on pension contributions above the 6% level. The SIP's role, if any, in encouraging active deviation from the 3% level is less clear. It is hypothesised that familiarity with financial markets encourages active financial decision-making and

default deviation (Engstrom & Westerberg 2003). The level of financial confidence may have had some bearing on responses to defaults in this study: those individuals who were members of the Share Investment Scheme, and who thus, arguably, had familiarity with financial markets, had all deviated from the minimum contribution default. But the correlation between SIP membership and pro-active pension behaviour may have been due to other factors - fewer income constraints, for example, or a greater willingness to save. Nevertheless, by examining matching behaviour through an alternative investigative lens, this study has drawn attention to the hitherto unrecognised interaction between pension match defaults and other employer-sponsored financial vehicles. It has also highlighted the need for those policy makers developing investment policies such as tax efficient savings vehicles, to consider whether they conflict with the wider issue of retirement income security.

The subtle distinction uncovered in this study between the motives for joining the workplace pension scheme and those for deviating from the contribution default is especially noteworthy when we consider automatic enrolment. The efforts to increase savings rates through automatic enrolment focus on intention realisation, by providing an effortless mechanism to save. But, as was made clear in the opening chapter of this thesis, for the middle-income employee, enrolment at the minimum default (or even, in the case of the participants in this study, at the employer's match of 6%) is unlikely, on its own, to overcome the problem of income shortfall at retirement. From a policy standpoint, therefore, the discourse needs to be steered to emphasise income replacement in retirement rather than pension scheme membership. Arguably, given the evidence presented in this thesis, this would be best achieved using workplace incentives - although the legacy of previous retirement provision may make this difficult.

Most private sector employers have closed their DB workplace pension schemes to new members but many existing DB members still accrue pension benefits and receive employer contributions substantially greater than those accruing to DC members (a point that was not lost on the participants in this study). Until these DB workers retire there will be a transitional period in which employees in equivalent positions of employment receive unequal remuneration. In spite of its proactive approach to automatic enrolment, the case

study employer expressed a reluctance to draw employees' attention to the differences between its DB scheme and DC schemes.⁸² It should not, therefore, be expected that employers will be keen to highlight the shortcomings in retirement savings schemes. But, as this thesis has shown, both personalised salient advice obtained in the workplace and employer-provided seminars can and do lead to individuals increasing their pension contributions beyond the minimum default.

7.3 Investment defaults

This final section discusses deviation from the investment fund defaults of the workplace pension scheme. Previous researchers have found that adherence to fund defaults is significantly more prevalent than adherence to contribution defaults (Madrian & Shea 2001, Choi et al. 2003) and these findings were replicated in this study. There was repeated evidence of employer endorsement effects in investment fund choice and this was linked to the perceived complexity of the investment decision and a reluctance to investigate investment options, all despite access to the fund manager's web site being readily available and little effort being required to change investment fund selection. Although a few individuals suggested that their risk profile was higher than the default asset allocation, there was evidence that, in the majority of cases, the asset allocation default option was considered close to optimum.

The study also noted high levels of trust in the employer's ability to manage employees' pension investments on their behalf. Thus, although willingness to accept investment default adherence may have been initiated by decision complexity, it was demonstrated that some participants had actively reflected upon the suitability of their employer to set the defaults. The default fund was considered a suitable option for the individual's circumstances because it was assumed that management had considered the interests of their employees when selecting the default.

On the other hand, willingness to deviate from the investment funds default setting did reflect the confidence that individuals had in their own financial ability and their interest in

⁸² See the introduction to 'The Results of the Saving for Retirement Survey' in Appendix D.

financial markets - although intent did not always translate into behaviour. Several of the female participants expressed doubt about their own financial acumen and, in concordance with previous research, generally the women display greater risk aversion with their DC investments than the men (Clark et al. 2009; Papke 2004; Bajelsmit et al. 1999).

Perhaps of greater significance, from a behavioural point of view, were not the participants' financial skills or risk profile, but the level of financial planning skills possessed by those in their social network. Two instances of deviation from investment fund default settings could be linked to advice from older individuals with experience of DC pensions, either a parent or an older colleague. Previous researchers have claimed that the more complex the decision, and the greater the search cost involved in obtaining adequate information to make that decision, the greater the likelihood of an individual opting for the default option (Bernheim 2011.) It is possible that, for some of the participants in this study, having readily available advice reduced their search costs and increased the probability of default deviation.

Reflecting on the three different types of default leads to the conclusion that there are a variety of motives driving behaviour responses to default settings in workplace pension schemes and that not all motives are of relevance to all defaults. For example, there was little indication that, for the participants in this study, acceptance of membership defaults was driven by decision-making complexity. Default adherence was motivated predominantly by social influences as individuals sought to conform to accepted norms of behaviour. Participants also remained enrolled in the pension scheme because automatic enrolment provided an effort-free mechanism to achieve their, albeit ill-defined, objective to save for retirement. On the other hand, as has just been discussed, investment fund default adherence was driven by ease of decision making. In the absence of informed individualised advice, or interest in financial markets, participants treated the default settings as recommendations from their employer.

In contrast, participants' reactions to the contribution default settings were considerably more complex. Adherence to the default settings could partly be explained by the fact that some of the individuals in this study were automatically enrolled prior to having engaged with retirement saving outcomes. Adherence to the contribution default could also be indicative of the conscious decision to prioritise alternative expenditure over pension

saving. Although some of that expenditure might be described as myopic over-consumption, it could also involve accumulating assets out with the pension scheme and did not represent a lack of future-orientated savings *per se*. Contribution default deviation could be explained by factors, such as parental ageing (which increased the salience of retirement needs), or planning for a family, which prompted discussions about the future. These circumstances encouraged critical reflection which induced proactive future-orientated savings behaviour. The wish to protect dependants exerted a powerful force on participants to save more for retirement. Settledness was also implicated - for example; establishment of a career; obtaining promotion; commitment to a location; or indeed to a relationship, were all linked to contribution default deviation. Financial advice that prompted an assessment of the suitability of current savings levels raised contribution levels, as did the financial motivation of the employer's match, and increases in remuneration.

7.4 Conclusion

This study has explored behavioural responses to the default settings of a workplace pension scheme in the context of automatic enrolment and it has sought to answer the following research question:

Under what circumstances do individuals adhere to or deviate from, the default settings in occupational pension schemes?

This final section of the thesis opens with a summary of the background to the research and explains both the objectives of the study and why the topic is of importance. This is followed by a section discussing the limitations of the study and integrates these with recommendations for future study. The final sections take each of the three subsidiary research questions in turn and present a precis of the research conclusions.

7.4.1 Background to the study

How individuals react to the default settings in their workplace pension scheme is an important topic that merits investigation because inadequate retirement savings have detrimental long-term consequences both for the individuals concerned and for society as a whole. Existing research suggests that default settings have a strong influence upon

retirement savings behaviour and that most individuals adhere to the defaults. The problem, from a UK perspective, is that the legislated default rates are considered too low to provide replacement income in retirement for middle-income employees (DWP 2015). In the introduction to this thesis, the point was made that the process by which defaults are deemed significant or are ignored has not been satisfactorily explained and that there is little understanding of the forces that motivate employees to overcome the influence of defaults. Further, there is little understanding of the dynamic decision-making processes that motivate individuals' deviation or acceptance of the default settings, and there has been little UK-specific research into changes in retirement savings behaviour subsequent to automatic enrolment. But this type of research has now become essential: automatic enrolment on a national scale is a major undertaking and, because the legislation affects the majority of the working population, it is important that we understand how individuals are adapting to its introduction.

This PhD research set out to broaden our understanding of retirement savings behaviour in the UK. The objective was to examine how individuals respond to the default setting of their workplace pension scheme. It aimed to understand why individuals remain members of these schemes following automatic enrolment and under what circumstances they might alter their contributions and fund selections from the scheme default settings. The research also sought to understand the dynamic decision-making processes that underlie individuals' assessment of the appropriateness of their pension contributions and investments. To further that understanding, this project sought to investigate how the environment in which employees experience automatic enrolment shapes their responses to defaults: the intention was to conduct an exploratory study that would investigate the subject from a sociological viewpoint.

The study has provided empirical evidence of varied retirement savings behaviour in an automatic enrolment environment. It did not look for strong correlations between the research participants' behaviour and default adherence or deviation, but, rather, sought to develop hypotheses and to illuminate directions for further study. As is consistent with an exploratory study, the areas of investigation were deliberately wide-ranging and the research considered the role that context plays in determining responses to default settings.

Thus, in addition to the principal research question, the project also sought to answer to the following subsidiary questions:

Question 1: How important is financial planning to default adherence or deviation?

Question 2: What role do social relations play in default adherence or deviation?

Question 3: What is the role of the employer in default adherence or deviation?

7.4.2 Limitations and recommendations for future research

The data collection methods were developed to specifically meet the exploratory objectives of the study but, the research design also limited the extent to which firm conclusions could be drawn. Accordingly, this section of the conclusion integrates recommendations for future study into the concluding comments on the limitations. This research made use of qualitative methods and it adopted an embedded case study approach. Although this study design conferred analytical advantages in that it ensured that all the participants had access to the same workplace pension scheme, the study's focus upon the employees of only one firm means that any conclusions drawn should not be generally applied to other employers. That said, the role that the employer plays in default adherence has been shown to be of some importance to the employees in this study and the organisational context merits inclusion in the conceptual framework of pension research. This thesis has hypothesised that the employer's pro-saving policies influenced default adherence. In order to substantiate this hypothesis, it would be necessary to conduct a comparative study of several employers with identical defaults to determine the extent of the employer's influence.

This study is unusual in pension research in that it has investigated a relatively homogenous socio-economic group of individuals. All participants were middle-income employees aged between 30 and 40, all with tertiary education and higher-than-average financial literacy. Of course, retirement saving behaviour may differ across different social groups and the findings should not be generalised to apply to the wider population. This is particularly relevant to the impulses to save that were linked to developing social status and the social background of the individuals under investigation. Nevertheless, the socio-economic

similarity of the participants was one of the strengths of the study - the homogeneity proved to be an effective means of filtering out the noise that a more randomised approach would have generated. It is unlikely that the study would have uncovered the significance of factors that were only relevant to a subset of participants had it not adopted an approach based upon socio-economic homogeneity - factors that were identified included parental literacy (Chapter 5. 4.3); the timing of childbearing in relation to career establishment (Chapter 5.1); and the effects of shifting from temporary to permanent contracts (Chapter 6.2). But the small sample size of the study also limited the examples of specific circumstances from which one could derive additional analysis. For example, although several participants discussed the effects of early career uncertainty and temporary employment, there were only a few individuals who had experienced automatic enrolment whilst employed on a temporary contract at the case study employer. Because of the limited examples, it was not possible to make an extensive examination of the relationship between contract status and default adherence. Employees on temporary contracts are included in automatic enrolment but this research introduces doubts about the ability of workers on short-term contracts to save optimally for retirement. The conclusion that I would draw is that further research is required to establish the extent to which variation in employment contracts influences behavioural responses to defaults. A broader socio-economic sample might also have obscured the possible interrelationship between relationship status, gender, and behavioural responses to default settings. These connections, which are discussed in Chapter 5.2.1, are so far unexplained. A larger study would be needed to investigate whether the correlations identified are of any significance in explaining variations in retirement savings behaviour.

Another limitation of the study is that it did not include an in-depth examination of the effects of the scheme architecture upon behaviour. It was hypothesised in Chapter 4.3 that the employer match not only acted as an incentive to increase contributions from the minimum default but also (in combination with the Share Investment Scheme match) appeared to place a ceiling on contributions. Further to this it would be productive to investigate to what extent those individuals who substantially increased their contribution rates had been influenced by either the initial default or the employer's contribution. This

could be achieved by examining default deviation amongst employees at firms with different employer contributions.

This PhD research was prompted by the introduction of automatic enrolment. The timing of the legislation helped precipitate the interest of an employer in the study, but, because the firm had been automatically enrolling new employees for less than a decade, it was not possible to evaluate the participants' behaviour over the longer term. In this thesis it has been suggested that automatic enrolment can delay active reflection on the suitability of contribution rates and investment funds. Evidence was presented in Chapter 6.3 to suggest that some participants had accepted the defaults as consequence of being automatically enrolled, and it was argued that some individuals chose default options when they were under pressure to make an immediate decision (a hypothesis previously made by Shani et al. (2012)). It was further noted that some participants deviated from the default in the months following enrolment and it was hypothesised that demands at the point of taking up employment might be an explanation for initial default acceptance - were individuals afforded more time to reflect on their requirements prior to enrolling in the workplace pension scheme, their behaviour might have been different. The extent to which default deviation occurs in the months following automatic enrolment, and the causes underlying such behaviour, merits further study. As automatic enrolment becomes more established in the UK, it is a theme that will become more open to investigation.

There is an additional reason why future researchers might benefit from conducting a longitudinal study rather than be limited, as was the case with this current research, to a one-off investigation. As was discussed in Chapter 3, it became clear early on in this study that behavioural responses to the default settings were more dynamic than had been suggested by the literature. The participant data-set included an individual who had opted out after auto-enrolment and subsequently opted back in, and an individual who had been a member for some time prior to opting out. Although several participants had altered their contribution levels from the minimum default, there was considerable variation in the timing and extent of this behaviour. Some had increased contributions from the outset; others had increased contributions incrementally; and two had increased and then lowered contributions. Although the Saving for Retirement Questionnaire provided a data-set that

suggests some behaviour correlates with socio-economic characteristics, the qualitative data uncovered dynamic complexity underlying these figures. This dynamism matters because it suggests that individuals were adapting to changes in their environment and that savings preferences were not consistent over time.

7.4.3 How important is financial planning to default adherence or deviation?

This thesis has found that, although many of the participants expressed the view that saving for retirement was important, the emphasis more often laid upon the 'act of saving' than upon a thorough assessment of the financial situation they would likely find themselves in on retirement. Only a small minority of participants had calculated their likely retirement needs and were planning for the future with a clear objective in mind. The correlation between age and increased interest in saving for retirement is well recognised and although it is suggested that individuals do not tend to think about saving for retirement until about age 40 (Rowlingson 2002), all of the participants in this study, irrespective of whether or not they had been auto-enrolled, were saving for retirement in some form or other (as, indeed, were the majority of their colleagues). There was some recognition of the tension between immediate demands and the need to prepare for the future and participants used a variety of strategies to resolve this conflict, the favoured one being the use of commitment devices, such as pensions and restricted savings contracts, to divert earnings into savings.

Financial planning was not a necessary condition for an individual to deviate from the minimum contribution default setting (some individuals were driven by a wish to maximise the employer's match) but financial advice that was deemed to be relevant to defined contribution pension schemes was implicated in some alterations to default settings. Personalised and appropriate financial advice from a trusted source was offered as an explanation for increasing contributions: financial advice and planning were also linked to alterations to the investment fund asset allocation but financial guidance was also implicated in participants' asset accumulation through other means. There is evidence from the interviews that some participants had received advice to prioritise mortgage debt reduction over increased pension saving. Planning to reduce mortgage debt was a key financial objective and becoming a mortgage-free owner-occupier was viewed as a key to managing expenses in retirement, so, although there was little indication of detailed

planning for retirement there was a general understanding of potential future income constraints. Mortgage redemption intention reduced willingness to contribute beyond the employer matching contribution level. Participants also planned to have multiple sources of financial security in retirement and they restricted pension contributions in favour of diversifying investment vehicles (but concentrating assets in housing and equity investment).

It had been assumed prior to conducting this research that those employees who were adhering to the minimum defaults in the scheme would be asset poor but the deeper understanding gained from this research offers the insight that, for some middle income individuals, these assumptions should not be made. Although the evidence suggests that financial planning increased overall asset accumulation, it did not necessarily increase pension savings.

7.4.4 What role do social relations play in default adherence or deviation?

This thesis has hypothesised that the main driver of employee adherence to membership defaults is social influence. Enrolment in the workplace scheme meant that members conformed to social norms and expectations. The sources of this social influence were identified as parents, older colleagues, and peer groups. In addition to direct encouragement by elders to enrol there was evidence that participants conformed to expectations that they ought to be saving for retirement. The belief was prevalent that, for individuals of their social status, pension scheme membership was the appropriate response. However, these influences alone are unlikely to explain all of the membership-adherence at the company. It is difficult to reconcile the very high levels of scheme membership at the case study employer with individual specific social influence. It is more probable that several years of cumulative automatic enrolment had changed the social context of pension scheme membership.

Automatic enrolment enables participants to put down a marker for retirement without requiring them to actively engage in planning for the future. Arguably, high levels of passive membership has led to an environment where, although it was still acceptable for employees to express little or no interest in the issue of pension planning, it was no longer

considered socially acceptable to opt out altogether. Social influence also prompted contribution default behaviour, although to a lesser extent.

The personal circumstances of the individual shaped their approach to pension saving: those individuals who perceived themselves as young, unsettled in their careers, or likely to move abroad, and who were not at the stage where they felt the need to reflect on retirement saving, preferred contributing at the minimum default. The analysis suggests that so long as these categories of individuals' were merely enrolled in the pension scheme, saving at the default could be justifiable, not only to themselves but also to others. On the other hand, changes in circumstances heralding maturity such as household formation or having children were recognised as circumstances that required a change in savings behaviour. Increasing contributions from 3% to 6% could be interpreted as a demonstration of expected responsible behaviour and some social disapproval was directed at those who did not conform to those expectations.

Although parents were important for establishing financial attitudes and preferred methods of accumulating assets, they had little direct impact on contribution defaults unless they were able to implant market-related pension knowledge. However, the relationship with the parent was of relevance in other ways because parental ageing increased the salience of pension saving and emphasised the desirability of financial security in retirement.

Lastly, relationships between spouses and partners had variable effects on default adherence. There was some evidence of joint decision-making and it was hypothesised that some individuals increased their own contributions to achieve parity with partners who had better pension provision. Divorce was seen to alter previous behaviour and, for some of the women in this study, was a catalyst for increasing contributions beyond the minimum default.

7.4.5 What is the role of the employer in default adherence or deviation?

The main finding from this study is that the influence of the working environment permeates the entire process of retirement saving and the role that the employer plays is interwoven with the other influences involved in the retirement saving decision-making process.

The thesis has hypothesised that the employment practices of the employer influenced default behaviour. Low-paid jobs, commission-based work, and subcontracting were identified with willingness to opt out and limit contributions to the default. The data suggests that fixed-term contracts have an impact both upon pension scheme membership and upon adherence to the minimum default - and that temporary contracts, even if these have sustained continuous employment, were associated with default adherence. The financial stability of the employer and the belief that the firm would be able to provide stable well-remunerated employment created an environment in which participants could plan for the future. Internal promotion and regular pay increases facilitated deviation from the contribution defaults as employees were able to divert funds into their pension without experiencing a reduction in take-home pay.

Secondly, the study has shown that the age distribution of the work environment (which is an indirect consequence of recruitment and management policy), impacted on the salience of retirement saving for younger employees and that colleagues could both encourage and discourage default adherence. The extent to which individuals actively engaged with the problem of contributions and deviated from the default settings appeared to be influenced by the quality and appropriateness of context-specific advice: support from older colleagues was influential in encouraging membership and in assessing the suitability of contribution and investment fund defaults.

This thesis highlighted the influential position that the employer commands in promoting pension scheme membership. As an early adopter of automatic enrolment the case study employer has, over time, created an environment where pension scheme membership has become the norm. Individualised promotion of the pension scheme to new employees has been shown to increase contribution default deviation, and the promotion of salary sacrifice may have acted as a prompt for enrolment. In addition, through the sponsoring of medium-term savings vehicles the employer arguably raised an awareness of financial markets that in turn led to more proactive responses to default settings. Employer matching contributions were implicated in participants' willingness to increase pension contributions beyond the minimum default. On the other hand, investment in share option schemes was offered by participants as justification for limiting contributions to the maximum match.

Finally, employer endorsement effects, driven by trust in the employer's intentions, were strongly implicated in fund default adherence and in investment diversification strategies. The study noted that employees trusted their employer's ability to manage pension investments on their behalf. The genesis of the participants' trust in their employer likely stemmed from the corporate culture that promoted career security, employee well-being, and share ownership. The organisational integrity of the employer was proposed as reason to trust the viability of the pension scheme and to accept the default settings.

These key findings support the premise underpinning this thesis that, in order to understand default adherence and deviation, it is necessary to recognise and investigate the context in which pension decision-making takes place. The findings also lead to the conclusion that, in an automatic enrolment environment, the organisational context merits inclusion in the conceptual framework of pension research.

7.4.6 Final thoughts

The study has contributed empirically to the body of knowledge concerning individuals' initial enrolment into workplace pension schemes and their continued membership of these schemes. It has also clarified why individuals opt out after automatic enrolment and why they increase contributions or alter investment fund selections after enrolment.

From a policy perspective, the lack of pension preparedness by some of the individuals in this study ought to be of concern. The participants under investigation were all well-educated financially-literate individuals on above-median incomes – precisely the type of individual one might suppose is able to secure an adequate retirement income. But, despite their socio-economic similarity, there was a wide variation in preparedness for retirement. The study highlights the fact that building assets for retirement is not a discrete event but a cumulative process developed over decades, and that the task of achieving pension adequacy is complicated by the life experiences of the individuals concerned. Although possession of a higher income may go some way toward facilitating saving for retirement, increased remuneration is not, by itself, a sufficient assurance of pension adequacy.

We live in a complex environment which, in recent decades, has seen a sustained increase in longevity, technological change, and evolving working environments. In addition, now-

ubiquitous DC pensions are vulnerable to periodic severe market declines, so it cannot be assumed that, for example, an individual now aged in their thirties and presently on track to achieve pension adequacy will be in a comparable position twenty years later. Individual incomes do not easily translate into wealth, and an adequate income maintained during one's working life is no guarantee of an adequate retirement pension. Having directed millions of individuals into contributing to workplace pension schemes, policy makers need to recognise that the Government now has a responsibility to ensure that contributions from the employee, the employer and the tax payer are all optimally invested to achieve the intended objective of universal income security in retirement.

In Chapter 2, this thesis maintained that, rather than assuming financial literacy as a panacea, effort should be directed into discovering how individuals utilise the skills they already possess. The conclusion that I draw from the empirical evidence is that the acquisition of financial literacy by an individual, although an important generator of self-confidence, does not by itself resolve the problem of inadequate retirement saving. Rather, it is the context in which these skills are exercised and, in particular, the support and advice received from others to facilitate planning, that is key. However, since access to social networks features unevenly across the populace, this thesis urges that, in the first instance, automatic enrolment should be designed to meet the needs of *all* employees and not just those individuals who might otherwise have made little provision for retirement – Government needs to worry as much about those who want to save, but are constrained, as it does about those who cannot save at all.

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8 Appendix A - The Decline of Earnings-Related Pensions

This appendix contains a short summary of UK post-war pension policy explaining the backdrop to state involvement in pension provision. Although this thesis concentrates on employer-sponsored pensions, it is important to be aware of the historical context of state provision in order to understand why automatic enrolment was introduced. The automatic enrolment and workplace pension reforms have their roots in the interaction between state-provisioned and private pension benefits, and the current pension regime has evolved as a consequence of previous policies (Myles & Pierson 2001; Lain et al. 2013). In addition, from an individual's perspective, the decisions that one makes regarding occupational pension schemes are not taken in isolation but are influenced by the perceived adequacy of state provision. This précis begins with state-sponsored pensions and continues in section 2 with the background to pensions in the private sector. The summary touches upon the state's role in providing earnings-related pensions and the consequences of a reliance on voluntarism to provide retirement income. The background concludes with an explanation of the introduction of automatic enrolment.

8.1 Means-testing and the basic state pension

1948 heralded the introduction in the UK of a near-universal basic flat-rate State Pension (BSP) funded by compulsory National Insurance contributions.⁸³ The aim was to provide an income just above subsistence levels and just above means-tested benefits (Bozio et al. 2010). The BSP was increased in line with earnings until the 1980s, when the Conservative Government severed the link with average earnings - this cut saw the relative value of the state pension gradually fall from one quarter of average earnings to a little over one sixth by the time Labour took power in 1997. This decline is of some consequence because it meant that those workers on average earnings had to make greater alternative provision, if they wanted to keep out of poverty in retirement.

From 1988 to 2003, pensioners were entitled to a minimum level of income through means-tested social security benefits that brought their income above the full BSP entitlement. This policy was subsequently rebranded by the Labour Government under Tony Blair as 'Minimum Income Guarantee'. Means-testing was expanded in the form of Pension Credit that aimed to guarantee a minimum income for all pensioners whilst at the same time encouraging workers to save for retirement themselves. For those policy makers who believed that the objective of state-administered pensions should be the alleviation of poverty, it might reasonably have been expected that, by concentrating on means testing, pensioner poverty could be eradicated, but this did not

⁸³ Eligibility is based on contribution years.

prove to be the case. Ultimately, Pension Credit failed in its objectives because, largely due to the complexities of claiming means-tested benefits, take-up rates are low: it is currently estimated that 35-40% of those entitled to age-related means tested benefits did not actually claim them (DWP 2015b p.iii).

In April 2011 the Conservative-Liberal Democrat Government introduced a triple lock policy⁸⁴ that heralded a rise in the nominal value of the BSP. The Coalition Government made further changes to state pensions with the 2014 Pensions Act which introduced a near universal state pension known as the 1st Tier pension. From 2016 this aims to provide a higher flat rate income of £151 per week for most pensioners thereby increasing the basic state pension to about 30% of median earnings (PPI 2015).

8.2 The rise and fall of state-sponsored earnings-related pensions

Earning-related state pensions were first introduced in 1961 and it could be argued that the 1960s and 1970s were a 'golden age' for the acquisition of state-sponsored pension entitlements in the UK (Myles & Pierson 2001). In addition to the flat-rate Basic State Pension, employees earning above a minimum level paid slightly increased National Insurance contributions that earned them a small income-related pension known as Graduated Retirement Benefit (GRB). The GRB was withdrawn in 1975 and supplanted in 1978 by the State Earnings-related Pension Scheme (SERPS), which was developed with the stated intention of creating a supplementary state pension scheme more closely related to earnings. The expectation was that, in addition to the Basic State Pension, the average retiree would receive a SERPS pension of 25% of pre-retirement salary (PPI 2015). Employers who already offered defined benefit pensions were allowed to opt out⁸⁵ of SERPS provided that they offered a guaranteed minimum pension (GMP) that was broadly equivalent to SERPS benefits (PPI 2015). In practice, most occupational DB schemes offered pensions that were significantly more generous than the GMP and, as a consequence, many employees in DB schemes could look forward to a pension equivalent to two-thirds of their final salary. For those current retirees who have benefited from a long and well-paid working life, the spectre of a financially precarious old age has all but vanished: average pensioners' net incomes have grown in real terms by 37% since 1999 (DWP 2015b p.6). State-sponsored pensions in the UK are funded on a 'pay as you go' basis. The Conservative Government under Margaret Thatcher realised that past pension promises would lead to potentially large financial liabilities in the future and this sparked reforms to the system in the late

⁸⁴ The nominal value of the BSP rises by the higher of average earnings, CPI inflation, or 2.5%.

⁸⁵ Known as 'contracting out'.

1980s (Myles & Pierson 2001). In 1988 the 3rd Thatcher Government introduced legislation permitting *individual* employees to opt out of SERPS. Instead of accruing a guaranteed index-linked pension, workers were encouraged to contract out of the state administered-scheme into market-linked pension funds provided by the private sector. These reforms effectively tried to turn employees away from SERPS and into privatised and individualised defined contribution personal pensions⁸⁶. However, little attention was paid to whether the insurance sector was adequately regulated to provide pensions for the mass market, or whether the public were sufficiently financially literate to make investment decisions unaided (Black & Nobles 1998).

The election of the Labour Government in 1997, far from ending the drive to marketisation of earnings related pensions, saw them enter a new phase as the Government tried to shift more responsibility for pension provision from the state to the private sector (Blake 2003 p.312). SERPS was rebranded as the State Second Pension (S2P) with the aim of assisting those *'for whom a private pension was not an option'* (Bozio et al. 2010 p.38). Government policy evolved to encourage all those earning above a lower earnings threshold (£9000 at the time) to opt out of state earnings-related pensions altogether. Caps on S2P benefits were introduced and contracting-out was strongly encouraged. Further reforms aimed to enhance retirement outcomes for low earners: changes were made to the scheme that benefited certain categories such as mothers with young children, the disabled, and those with caring responsibilities who were unable to take up fulltime paid employment. These groups were allocated credits to the S2P even if they had little or no income (PPI 2015). These changes effectively severed the link between earnings and retirement benefits, altered the focus of the S2P from earnings related pensions to vertical redistribution, and involved a retrenchment of state benefits for middle earners. Although the Coalition Government of 2010-15 showed support for state pensions by re-establishing the link with average earnings, it also extended the logic of previous Governments by retreating from the provision of potentially expensive earnings-related pensions. The legislation introducing the 1st Tier pension has ended the future accrual of entitlements to the S2P. For many workers the S2P has effectively been abolished - thus the state has finally retreated from the objective that it had initiated in 1960, to provide earnings-related pensions for UK workers in retirement.

8.3 The decline in occupational pensions

The UK Government has, until recently, relied upon the voluntary provision of pensions by employers and upon the willingness of employees to save for retirement. They have pursued this

⁸⁶ A pension scheme that is independent of the contributor's employer.

policy primarily by offering savers tax incentives. Pension contributions currently receive income tax relief at the marginal rate – a policy that mostly benefits higher-rate tax payers and which, in 2013/14, cost the Exchequer £21.2 billion (Osborne 2015). But the period of decline in state-sponsored earnings-related pensions has also coincided with a decline in the provision of occupational pensions in the private sector. Despite the relatively generous tax inducements, membership of occupational pension schemes fell steadily in the two decades prior to 2013 (ONS 2014 p.3). Some commentators attribute much of the decline in membership to the fact that after 1988 employers could no longer make pension scheme membership a condition of employment (Blake 2003 p.311). Arguably, that voluntarism left both pension provision and membership vulnerable to event risks such as financial market volatility and financial scandals.

In the 1980s, most occupational pensions were DB schemes and it was generally presumed that workers' pensions were guaranteed. However, in 1991 it was discovered that the publishing magnate, Robert Maxwell, had appropriated hundreds of millions of pounds from his company pension schemes to support shares in the Mirror Group (Jones 2011). The Maxwell scandal had long-lasting repercussions as employees became less trusting of their employer's custodianship of their pension funds (ironically, since the safeguards in the company pension schemes were subsequently tightened).

Government tax policy further undermined the pension system. In the late 1980s, the Conservatives began taxing company pension scheme surpluses; as a consequence, companies began to reduce their funding of DB schemes. In 1997, the then-Chancellor, Gordon Brown, removed the tax credit on dividend income in pension funds - action that also had far reaching consequences because it lowered investment returns in company pension schemes. In addition to these fiscal changes, increased underlying pensions costs brought about by alterations to the regulatory accounting framework, as well as an increase in life expectancy, led to (or arguably were used as justification for) the closure of most private sector DB schemes to new members (Bridgen & Meyer 2005). By 2014 only 13% of DB schemes in the private sector were open to new members (Pension Regulator 2014 p.28). Thus, for many the link between pre-and post-retirement income was broken as employers retreated *en masse* from the provision of guaranteed DB pensions and shifted investment risk onto their employees. In addition, employers took advantage of the move from DB to DC schemes to lower the contributions that they made to their workplace pension schemes resulting in much lower projected pensions for employees. Many employees are not fully cognisant of the potential shortfall in pension incomes that is a consequence of these changes: one study found that, as recently as 2009, 13% of those individuals who had experience of DC pension schemes were unaware that final values were dependent on stock market conditions (Clery et al. 2010 p.54)

In the public sector, participation in workplace pensions, which are predominantly DB schemes, is the norm, but in the private sector there are substantial industry differences in take-up rates. Participation is highest in large industrial firms, and in the financial sector where earnings are also high, but participation has been much lower in sectors such as retailing and the accommodation and food services industry, both of which employ a disproportionate number of low-paid, part-time, and female workers (ONS 2014 p.20). Certainly, the Blair Government believed that one explanation for the low pension participation rates was that not all employees had access to a workplace pension scheme - in 2001, it attempted to rectify this shortcoming by introducing legislation obliging all employers with more than five employees to offer what were known as Stakeholder Pensions. These were effectively private pensions that employees could voluntarily contribute to directly from salary, but the legislation failed to include any compulsion for employers to contribute to the schemes and, unsurprisingly, take-up was low.

8.4 Personal pensions

Policy holders of personal pensions, many of whom were self-employed or did not benefit from employer provision, also had reason to distrust the security of their pension pay-outs. As early as 1991, questions were being raised about the suitability of pension contracts for workers who had contracted out of SERPS, primarily because of high administration charges (Blake 2002), and because of concerns about the impartiality of the unregulated pension salesforce (Black & Nobles 1998). In 2000 the venerable insurance company Equitable Life ran into financial difficulty and was unable to meet its pension liabilities (Penrose 2004), further undermining confidence in the financial sector and in the security of pension schemes.

Gordon Brown's dividend tax reforms substantially lowered the growth rates of personal pensions. Personal pension plans are market-linked and their performance is dependent on stock market returns. During the period of strong stock market growth in the late 1990s, shortcomings in the system, such as hidden administration and tax costs, could be largely ignored, but the financial shocks of the 2000 dot-com crash revealed the vulnerabilities of market-linked products and dented the enthusiasm of the public for pension investment. Some of those individuals sought alternative sources of investment through the booming buy-to-let property sector (Smith 2005). The failure of the banking sector in 2009 also had far reaching consequences for those who depended on the financial markets for their security in retirement. Not only were fund values slashed as equity markets fell but the subsequent reduction in interest rates put pressure on annuity rates. In the UK pension annuities from DC schemes are individualised contracts and subject to market forces. Annuity rates vary considerably between insurers - rates from the poorest providers can be 30 per

cent lower than those from the best providers, and it is possible for two similarly-placed individuals retiring on the same day with identical pots to receive different pensions. Annuitisation used to be compulsory but, as the number of employees with DC schemes increased, the Government bowed to pressure to introduce more choice into the distribution phase and this led to piecemeal reforms that added considerable uncertainty and complexity to the opaque decumulation process. From 2015 individuals over the age of 55 have unfettered access to their DC pension funds although withdrawals are subject to income tax⁸⁷.

8.5 The introduction of automatic enrolment

The decline in membership and generosity of occupational pension schemes led to an awareness that the associated income inadequacy would lead to increased demands upon the public means-tested benefits. In an effort to increase retirement savings rates and thereby reduce dependency on state benefits, the UK Government, possibly with a view to avoiding blame for welfare retrenchment, instigated extensive cross-party consultations (Myles & Pierson 2001). This led to the establishment of the Pensions Commission in 2002. In its first report in 2004, the Commission estimated that the proportion of UK private sector workers relying entirely on the state sector pension had increased from 46% in 1995 to 54% in 2004 (Institute for Government, 2010). These consultations led to the second Pensions Commission Report of 2005 and culminated in the adoption of the National Pension Act of 2008. The reforms included an obligation for employers not only to provide workplace pensions but also, commencing 2012, to make contributions on employees' behalf. Once fully established in 2017, the enrolment process will include a minimum employer contribution of 3% of salary, an employee default contribution rate of 4%, and a government contribution of 1% (giving a total contribution of 8%). Enrolment is automatic, although employees have the option to opt out or to increase their contribution rate if they wish. The introduction of automatic enrolment recognised that relying on both the willingness of employers to voluntarily contribute to employees' pensions and the willingness of employees to voluntarily enrol in workplace pension schemes had failed to ensure that most individuals made adequate provision for retirement. However, the voluntarism that has characterised the system since the late 1980s prevailed and the reforms again stopped short of compulsion for employees. Nevertheless, by most measures, automatic enrolment is expected to make a positive contribution to the problem of low pension scheme membership and will, in theory at least, reduce future dependency on state benefits. Automatic enrolment began to be rolled out in October 2012 starting with the largest

⁸⁷ The first 25% of any withdrawal is tax free and the remainder taxed as income.

employers, and although opt-out rates of about 30% were predicted, early indications are that fewer than 10% of enrolled employees have opted out. In 2012, 47% of employees belonged to a workplace pension scheme; 18 months after the introduction of automatic enrolment this figure had risen to 59% (ONS Digital 2015 p.1)

9 APPENDIX B - Background to the Case Study

The employer is a leading utility company with interests in power generation, telecommunications and in the mechanical and electrical contracting sectors.⁸⁸ It has work sites throughout the UK and directly employs about 20,000 individuals. The employer still operates a final salary⁸⁹ defined benefits pension scheme although the scheme was closed to new members in 1999⁹⁰. Since 1999, employees have been able to enrol into a defined contribution scheme known as the Group Personal Pension Plan. At the time of the interviews the employer had been running quasi-automatic enrolment for seven years - new employees were automatically enrolled, but those who had never joined the scheme, or who subsequently opted out, were not automatically re-enrolled. New employees are enrolled at an employee default contribution rate of 3%, although scheme members are able to increase this amount upon request and there is no upper contribution level. The employer matches employee contributions up to a maximum of 6 %. The company also makes an employer contribution of an additional 3 % after five years' service, and again after ten years of service. Thus a long-term employee contributing at 6% would receive an employer contribution of 12%. At the beginning of the study participation in company pension schemes was running at approximately 90% of employees but following legislated automatic enrolment this rose to well over 95%.⁹¹

The employer also offers, and promotes, through internal advertising, two share saving schemes- the Share Save and the Share Investment Plan (SIP). The Share Save is a share option scheme in which employees are offered the right to buy shares in the employing company at a fixed price in the future. Employees save up to £250 a month out of their net pay and after five years the contract matures and they are able to exercise their option to buy the shares, or have the savings returned. Maturing Share Save contracts also attract a tax-free bonus equivalent to a fixed rate of interest (rates are set by the Treasury). The Share Investment Plan is a matching share investment scheme whereby the employer matches two shares for every one that the employee buys up to a maximum of six shares a month. SIP contributions are deducted from gross salary and, at the time of the interviews, an annual outlay of about £540 would have gained the employee shares worth about

⁸⁸ Data comes from company website but name of source withheld for reasons of confidentiality.

⁸⁹ Employees contribute 6% of gross salary into the DB scheme which has an accrual rate of 1/80. The normal retirement age for the DB scheme is 63 but members can take actuarial reduced pension from 55 and pay-outs are index-linked (up to 5%).

⁹⁰ With the exception of intra-scheme transfers as a result of corporate acquisitions.

⁹¹ Source employer's HR department.

£1620. SIPs can be cashed at any time (subject to a tax liability) and are completely free from any tax liability after five years. About half of the employees participate in at least one of the share save schemes.

The impression gathered from both the interviewees and other members of staff whom I came into contact with is that they were working for a 'good employer'. The company had many long standing employees and I came across several employees who had family members working there. Health and Safety was of high priority and this policy was extended across all the employees, including those who were office based. The strict Health and Safety policies created an impression that the employer cared about the employees but the strict interpretation of the rules seemed overzealous. In all companies there will be some individuals unhappy with certain the organisation and the case study was no exception to this, but overall the employer was viewed positively in terms of providing job security and career opportunities. These findings were confirmed by postings on an employer review website (Glassdoor.co.uk).

The company has large offices in several major cities but, in addition, has employees throughout the entire UK, many based in small depots or in power stations. The interviews were conducted at seven sites in Scotland and England and a brief description of these research sites is included below.

Research Site 1: The office complex had been previously occupied by a financial services company and many of the employees, most of whom worked in the call centre, had been employed by the previous tenant. The office is in a rural location and call centre employees spent their entire working day on site. The interviews were held in the staff canteen which is a large light high-ceilinged room and was very busy throughout the day.

Research Site 2: This site houses 3000 staff many of whom are involved in customer contact. The office is situated in an industrial park but close to a nature reserve and there was evidence that some employees leave the office at lunchtime. The staff facilities were of a high standard and included a relaxation room with soft sofas and televisions, and this was where the interviews were held for. This office had the most relaxed atmosphere and once through security I was able to move around the building with little interference. The dress code at both research site 1 and 2 appeared more relaxed than at the other offices.

Research Site 3: The head office is located at research site 3 and activities are spread over several buildings; the main building houses the corporate administration, and a state of the art training centre is located about half a kilometre away. Dress code in the head office was business orientated. The research site included a broad mix of employees representing various interests in the company.

Security and health and safety rules were strictly enforced and visitors have to be accompanied at all times whilst in the building. Interviews were held in various staff canteens located across the complex. The company is one of the largest employers in the local area.

Research Site 4: This site, which houses the company's renewable energy activities, is situated in prime office space in a city centre close to a main railway station. The impression gained from visits to the office is of a young well-educated workforce and this finding is substantiated by the questionnaire data which indicates a higher number of graduate employees⁹². The employees appear to have some autonomy because, although the meeting facilities were of a high standard, three participants preferred to leave the building to meet in a neighbouring coffee shop and they indicated that this was a common practice.

Research Site 5: This office is in a town city centre and has cramped conditions and limited facilities. Some of the employees at this office appeared to be electrical engineers rather than administrators. The interviews were held in the staff canteen.

Research Site 6: A small, somewhat dated office in an industrial park within a city boundary and with no on-site catering facilities. The interviews were held in a meeting room.

Research Site 7: This office is also a small subsidiary a few miles out of a city close to the airport. The interview was held in a meeting room.

It was originally hoped that the on-line questionnaire would reveal clusters of behaviour at the regional offices, but because of the high levels of scheme membership, the analysis of the quantitative data did not prove conclusive, and it was not possible to disaggregate responses at a regional level. Never-the-less it was clear that there were some regional differences in the membership of the pension scheme. DC scheme membership was highest in the head office (95%) and lowest at one of the large regional call centres (81%). There may have been socioeconomic reason for this difference in membership; the call centre employees were lower-paid, younger, and less well-educated. There were also perceptible differences in the attitudes of the employees to management at the regional offices and this may have been explained by the geographical distance from the head office. Although lack of access to HR was perceived as a problem for some employees the head office employees were generally positive about the availability of the personnel in the Pension Department.

⁹² 14% were postgraduates and a further 33% had a degree or professional qualification.

10 Appendix C - Key to the Interview Participants

For several years after closing the DB scheme to new members the employer offered membership of the DC scheme but did not automatically enrol new starts - automatic enrolment was introduced about 8 years prior to the research taking place. There were therefore some employees who were members of the DC scheme but who had not been automatically enrolled – a fact I was unaware of this fact prior to inviting potential participants for interview. This finding slightly altered the scope of the research project and explains why the research examines default behaviour in the ‘context of automatic enrolment’ and not behaviour following automatic enrolment. Eight of the participants in the study had been employed in the company prior to automatic enrolment- all of these individuals received an additional 3% employer’s contribution into their pension plans as a reward for 5 years’ service and some received a 10 years’ service loyalty bonus of an additional 3%.

This ‘key to participants’ includes details about their relationship status but, because some interviewees did not differentiate between marriage and living together, both categories have been combined. The key includes information about enrolment circumstances and subsequent alteration to contributions. Participants E, L, Q and R advised that they enrolled at 6% - this means that they opted to increase pension contributions when completing initial employment contract details, whereas candidates A and C increased contributions after a short delay – possibly only of a few weeks. Two participants, N and W were automatically enrolled following the employer’s enactment of the automatic enrolment legislation in spring 2013.

- A** Male, age 30, partnered, no children, Degree, automatically enrolled at 3% but increased to 6% after induction
- B** Female, age 33, divorced, re-partnered, no children, Postgraduate degree, employed prior to automatic enrolment, joined in 2012 at 3%
- C** Male, age 35, partnered, no children, Degree, automatically enrolled at 3% but increased to 6% after induction
- D** Male, age 32, single, no children, Degree, employed prior to automatic enrolment, joined voluntarily at 6%, reduced to 3%, and subsequently increased to 9%
- E** Female, age 40, divorced, partnered, children, Degree, automatically enrolled at 6%
- F** Male, age 37, divorced, re-partnered, children, HNC/HND, automatically enrolled at 3%, increased to 6% after nine months
- G** Female, age 34, single, no children, Degree, automatically enrolled at 3%

- H** Female, age 40, divorced, children, HNC/HND, part-time, employed prior to automatic enrolment. Eligible but did not join DB scheme. Joined DC scheme following divorce at 3% but gradually increased to 8%
- I** Female, age 31, partnered, no children, HNC/HND, automatically enrolled at 3%
- J** Male, age 39, partnered, no children, Degree, employed prior to automatic enrolment. Joined after five years at 6%
- K** Female, age 35, partnered, no children, Postgraduate degree, automatically enrolled at 3%. Increased to 6% after moving onto permanent contract
- L** Male, age 39, single, no children, Degree, automatically enrolled 6%
- M** Male, age 36, married, children, Degree, automatically enrolled at 3%
- N** Female, age 35, partnered, no children, Postgraduate degree, non UK citizen, automatically enrolled at 3% but opted out after two years, automatically re-enrolled at 3% in 2013.
- O** Male, age 32, married, children, HNC/HND, employed prior to automatic enrolment, joined at 6% but reduced to 3%
- P** Male, age 34, partnered, no children, HNC/HND, employed prior to automatic enrolment but joined immediately at 3% and gradually increased to 7%
- Q** Male, age 39, single, no children, Degree, automatically enrolled at 6%
- R** Female, age 34, divorced, children, Degree, automatically enrolled at 6%
- S** Male, age 37, partnered, children, Degree, non UK citizen, automatically enrolled at 3%
- T** Female, age 30, single, no children, HNC/HND, automatically enrolled at 3%
- U** Male, age 37, partnered, no children, Degree, employed prior to automatic enrolment, automatically enrolled in 2013 at 5%
- V** Female, age 33, partnered, no children, Degree, non UK citizen, automatically enrolled at 3%. Increased to 6% after marriage
- W** Male, age 35, partnered, no children, Degree, employed prior to automatic enrolment, automatically enrolled at 3% in 2013
- X** Male, age 30, partnered, no children, Postgraduate degree, automatically enrolled, but immediately opted out. Joined several years later at 5%
- Y** Female, age 33, partnered, children, Postgraduate degree, part-time, automatically enrolled at 3%

11 Appendix D - Results of the Saving for Retirement Survey

The 'Saving for Retirement Survey' was launched in January 2013. There were some shortcomings in the way that the survey was delivered. Firstly, it was initially intended that the questionnaire was to be made available only to DC members but, in the event, the survey link was emailed to all employees with an email address, (hence the questionnaire is a 'whole of population' survey. The employer was unable to give an exact number of recipients – although it is not greater than 20,000.

Secondly, I would have preferred the questionnaire to have been individually addressed to the recipients; there is evidence that personalisation increases participation (Sánchez-Fernández, et al. 2012), but this was not possible because of data protection concerns - the employer was unable to give me direct access to employees' email addresses. Consequently, although I was able to easily keep track of overall response rates, the lack of individualisation meant it was impossible to subsequently track which specific individuals had replied. This also meant that there was no means of limiting responses to one per recipient and it was possible for respondents to partly complete a questionnaire, abandon it, and begin again. Although due consideration had to be made for these shortcomings when analysing the data, in the final analysis, they had marginal impact on the usefulness of the data for answering the research question. The questionnaire was developed as a tool to confidentially enable access to those employees whose earnings were in the middle-high income salary range and in this it was successful. The responses were also used to develop the questions to be asked in the qualitative interviews. To that end the questionnaire responses were filtered to exclude the DB membership. The questionnaire had been developed in consultation with the sponsoring company and included a number of questions relating to the DB scheme. Although the pension director had been issued with a copy of the questions prior to the launch date, one of the questions, which related to final salary scheme membership, was deemed too sensitive by one of the other board members and the employer requested that the DB related questions be removed after the questionnaire had been launched⁹³. The question was amended on day one as requested although this necessitated a change to the URL link to Bristol Online. So, in effect, there were two surveys – one with 2829 respondents of whom 628 were known to be DB members, and a second survey of 1260 respondents. It was not possible to isolate the DC members in this latter survey. The data which was used to develop the interview questions comes from the 2191 respondents who were known to either be members of the DC scheme or eligible to join it (i.e. not members of the DB scheme) and this is the data that is recorded below.

⁹³ See Chapter 7.1.2

It was never intended to use the questionnaire results for quantitative data analysis, however, in light of the high response rate, the results were analysed to a limited degree. The relevant analysis and comments are included with each individual question. It should be borne in mind that, because this research project is primarily a qualitative study, the quantitative data is presented in a style that makes it accessible and aids in understanding the background to the research.

11.1 Questions and responses

(Adjusted to include only DC members)

Q1. Do you currently make contributions to the SSE Group Personal Pension Plan?

89.7% of eligible respondents indicated they participated in the Group Personal Pension Plan.

The employer advised that this figure was in line with actual participation. At the time of the interviews 42% of private sector employees in the United Kingdom were active members of a workplace pension scheme (DWP 2015 p.6). Thus pension membership at the case study was significantly higher than the UK average – a fact that I had not been aware of prior to commencing the research project, but which is relevant to the conclusions drawn from the research (see Chapter 7). The high membership may have derived from the legacy of some parts of the company having previously been in public sector ownership: pension scheme membership is higher in the public sector than in the private sector (DWP 2015). Following the introduction of legislated automatic enrolment in spring 2013 the employer reported that approximately ninety-five percent of employees had joined the pension scheme. The average opt out rate across the UK following automatic enrolment is currently just about 9% (DWP 2014 p.4)

Those respondents who indicated that they participate in the Group Personal Pension Plan were asked the following question.

Q2. What percentage of your salary do you currently pay into the Group Personal Pension Plan?

3%	32%
4-5%	7%
6%	28%
7-8%	2%
9% or more	5%
Don't know	25%
Other	1%

Significantly more male employees (37%) than female employees (21%) stated that they contributed 6% of salary. Higher contribution rates were also more prevalent amongst higher earners (although there was negligible difference in participation rates).

The majority of those contributing 3% were under thirty years of age. Closer examination of the data also revealed that at least four out of five of the employees contributing 3% had fewer than five years' service. This appeared to indicate that there was a correlation between length of service and higher contributions and this point was investigated during the interviews. A discussion of the relationship between tenure and pension contributions can be found in Chapter 6.4.2.

Those respondents who indicated that they participate in the Group Personal Pension Plan PPP were asked the following question.

Q3. What percentage of your salary does [the employer] contribute to your Group Personal Pension Plan?

0%	0%
1-2%	0%
3%	20%
4-5%	4%
6%	26%
7-8%	1%
9% or more	13%
Don't know	33%
Other	2%

The responses to this question are illuminating because there is a disparity between employees' awareness of their own contributions and their awareness of the level of employer's contributions.

33% of employees in the DC scheme do not know how much the employer contributed on their behalf. Amongst those who knew their own contribution level, lack of knowledge of employer contributions was most prevalent amongst those contributing 3% of salary. Previous research (into health insurance premiums) has found little evidence that employees take account of the employer's contributions when joining company-sponsored schemes (Chernew et al. 1997). The data from the questionnaire appeared to substantiate Chernew et al's findings.

Closer examination of the data also revealed that about one in five paying the minimum contribution of 3% stated that the employer contributed 6%. Just under half of those employees contributing 6% to the scheme reported that the employer contributed 9% or more on their behalf. This is indicative

of long service - the company contributes an additional 3% after 5 years' service and 6% after 10 years' service.

Q4. From whom did you seek advice before deciding to contribute to the Group Personal Pension Plan?

Did not seek advice	46%
Parents or other family	15%
Colleagues	13%
Partner/Spouse	10%
Friends	4%
Independent Financial Advisor	3%
HR personnel	3%
Other	3%
Internet	3%

Analysis of all of the data revealed that there was no statistical difference between DC and DB members' response to this question. This would indicate that DC members were no more likely to seek advice although, arguably, they were more likely to require it. The 2008 Pensions Act does not obligate employers to offer pensions advice. Attitudinal research conducted prior to the implementation of automatic enrolment found that consulting an independent financial advisor (IFA) was the preferred source of pension advice (Clery et al. 2010). Most IFAs earn commission from selling products and, where there is no commission stream as is the case with work-place pensions, IFAs charge for their advice. Consequently, I conjectured that many employees would have been unable, or unwilling to obtain independent financial advice prior to enrolling. The results from the pre-interview questionnaire substantiated this hypothesis. The survey findings were helpful in directing the interview questioning to include specifics about family influence (see Chapter 5)

Q.5 How many of your work colleagues do you think make contributions to the Group Personal Pension Plan?

Almost all of them	40%
A substantial number of them	40%
Probably only about half of them	14%
Less than half of them	5%
Very few of them	2%

Q.6 Of those colleagues who do contribute to the GPPP how much do you think they contribute on average each month?

1-2% of salary	2%
3-4% of salary	41%
5-6% of salary	25%
7-8% of salary	2%
9% or more of salary	1%
Don't know	29%

Note that it is not actually possible to contribute less than 3% of salary.

The data from these two questions was further analysed. Participation in the pension scheme was perceived to be the norm; 80% of respondents believed that *almost all* or a *substantial number* of their colleagues were members of the occupational pension scheme, although this figure was lower than actual participation. Female employees were more likely than males to underestimate both participation and contribution levels. The discussion on colleague influence and savings norms is in Chapter 6, although the analysis did not provide any clarity into why there is a gender difference in awareness of colleagues' behaviour. One third of those who answered *very few of them* were not contributing to the pension plan themselves (although the sample size is low).

Q.7 Have you ever been a member of a final salary pension scheme?

No longer an active member of a final salary scheme	23%
Never been a member of a final salary scheme	60%
Don't know	18%

Of those questioned, 30% of males had *previously participated but were no longer an active member of a final salary pension scheme*. Female employees were much less likely to have built up retirement income from membership of a final salary pension scheme: only 12% of females had done so. Deeper investigation of this gender difference revealed that defined benefit entitlement was more prevalent amongst older males, and therefore unlikely to be of direct relevance to the majority of the interview participants⁹⁴. Nevertheless, DB scheme membership was subsequently discussed in the interviews. Most participants had only ever experienced DC schemes, or had been members of DB schemes for a relatively short time.

⁹⁴ This is because all the interview participants were aged between 29 and 41

Q.8 Do you have any other long-term savings or investments?

Yes	65%
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Q.9 What kind of investments do you have?

Share Save Scheme	28%
Cash savings (including cash ISAs	25%
Other pension Funds	17%
Property	15%
Equities (including equity ISAs & unit trust)	7%
Endowment	4%
Other	2%
Would rather not say	1%

Q. 10 How important will the following sources of income be to you in retirement?

Please rate your answers in order of importance with 1. being extremely important and 4. being not at all important

Pension from current employer

Extremely important	75%
Quite important	18%
Not very important	4%
Not at all important	3%

Note that the cumulative figure of those saying *extremely important* and *quite important* is 93%. This is higher than the total contributing to the company pension scheme at the time of the questionnaire.

Pension from previous employer –

Extremely important	28%
Quite important	21%
Not very important	16%
Not at all important	35%

Spouse's pension/income

Extremely important	39%
Quite important	31%
Not very important	14%
Not at all important	17%

Women were more likely to be expecting to depend on a spouse's pension than men. These results led to the topic of spouses' pensions being raised during the interviews although this source of income was not found to be as significant for the female interview participants as one might have expected given the survey results. This may be related to the participants having higher earnings than the average female employee. The role of the spouse in pension decision-making is discussed in Chapter 5.2 and the section also draws attention to earning distribution in relationships.

State pension/benefits

Extremely important	38%
Quite important	37%
Not very important	18%
Not at all important	6%

The issue of state pensions was raised during the interviews and the findings are detailed in Chapter 4.3.

Income from savings

Extremely important	34%
Quite important	37%
Not very important	20%
Not at all important	10%

Cross referencing the expected source of income against other assets raises a mismatch between expected income sources in retirement and current assets. Almost two thirds of employees with no savings expected savings to be *important* or *very important* as a source of retirement income. The age profile of the non-savings group was younger than the savings group and this suggested the possibility that the younger individuals expected to build up savings in later life. It was not possible in the interviews to verify the relationship between the participants' expectations and their actual preparations, but the conclusion that was drawn from the analysis is that participants were optimistic about their ability to accrue assets in the future.

Income from property

Extremely important	28%
Quite important	29%
Not very important	19%
Not at all important	25%

The relevance of property ownership was investigated during the qualitative interviews and the relationship between property ownership, mortgage debt and retirement saving was revealed as being important - the consequence of individuals holding the view that property is a retirement

resource is that savings were diverted from pension schemes towards property asset accumulation. The interview findings concerning property ownership are presented in Chapter 4.2.1 and discussed further in Chapter 4.4

Q. 11 What percentage of your current salary would you need to receive to be comfortable in retirement?

One third or less	4%
Half	24%
Two thirds	31%
The same salary as now	30%
More than my current salary	12%

There was considerable mismatch between respondents' required income in retirement and their likely income based on current contribution levels. Looking at the responses to the question: *What percentage of your current salary would you need to receive to be comfortable in retirement?*, it was found that 42% of employees said that they would require *the same salary as now* or *more than my current salary* to be comfortable in retirement - this requirement was more prevalent amongst women than men⁹⁵. Cross-referencing retirement income requirements with those who were members of the company pension scheme revealed that 45% of those employees contributing the minimum 3% would require *the same salary as now* or *more than my current salary* to be comfortable. This specific point was not investigated further as the survey results indicated that the requirement for a higher income in retirement was linked to current low pay and therefore not of direct relevance to the interview participants. However, the survey revealed that only a tiny minority of employees appear to be making sufficient savings to meet their retirement expectations.

Q. 12 I feel that I understand enough about the Group Personal Pension Plan to make reasonable decisions about saving for retirement;

Strongly Agree	12%
Agree	36%
Neither agree or disagree	25%
Disagree	19%
Strongly disagree	6%

Female respondents were more likely to disagree with this statement than males. There was some correlation between disagreement with the statement and low levels of education. The subject of

⁹⁵ The average male salary was higher than the average female salary.

pension knowledge was raised with the interviewees. The interview participants had all received tertiary education but, despite this, several of the female interview participants also expressed lack of confidence in their ability to make pension investment decisions. This lack of confidence impacted on how participants responded to advice from others and this theme is discussed in Chapter 5 with reference to parental influence, and in Chapter 5 when discussing the influence of the work environment.

Some theorists point to the contradictory desires of the present-day self and the future self and argue that a preference for current consumption rather than for saving for the future leads to myopic decision-making (Thaler & Sunstein 2008). When I designed the questionnaire the direction that the research project would take was not fixed and I included hyperbolic discounting and myopic thinking as a possible avenue of interest. The following two questions were designed to highlight myopic thinking and a bias towards the present day.

Q.13: If I had a choice of receiving £1,000 today or £1,000 in one year's time I would choose...

£1,000 today	45%
£1,100 next year.	46%
Undecided	9%

88% of those who chose 'receiving the money immediately' were members of the occupational pension scheme and one explanation for this may be that those individual with a bias for the present day were using the pension scheme as a commitment device. There is some evidence of this type of behaviour from the interview participants and this point is expanded upon in the discussion section of Chapter 4. The relevance of time preferences was not pursued to any depth in the interviews because it became clear that there were inconsistencies between the participants' survey results and their time preferences as stated in the interviews. An explanation of this is given in the Researcher's Reflections section at the end of Chapter 3.

Q.14: If I had to choose I would rather have a good standard of living today than save retirement.

<i>Strongly agree</i>	3%
<i>Agree</i>	16%
<i>Neither agree or disagree</i>	37%
<i>Disagree</i>	39%
<i>Strongly disagree</i>	5%

There was little association between the 16% who agreed with the statement and non-participation in the pension scheme. This would suggest a strong commitment to saving for retirement irrespective of current consumption preferences. The social importance of saving for retirement is discussed in Chapter 4 and participants' preferences regarding consuming or deferring consumption are discussed in Chapter 4.2 and 4.4.1.

Q 15: I always make sure I have money saved from a rainy day.

<i>Strongly agree</i>	19%
<i>Agree</i>	36%
<i>Neither agree nor disagree</i>	20%
<i>Disagree</i>	21%
<i>Strongly disagree</i>	4%

Q 16: When I was growing up I was encouraged to save.

<i>Strongly agree</i>	24%
<i>Agree</i>	39%
<i>Neither agree nor disagree</i>	18%
<i>Disagree</i>	15%
<i>Strongly disagree</i>	3%

Financial Literacy Questions

The financial literacy questions in the survey were directly translated from the OECD Financial Literacy Questionnaire (Atkinson & Messy 2012). The case study workforce (or at least those who completed the survey) is relatively well-educated and financial literacy levels were significantly higher than the UK general population average. Financial literacy is known to be correlated with stock market experience (Engstrom and Westerberg 2003) and it may be that the share savings schemes⁹⁶ sponsored by the employer were having a positive effect on the financial literacy of employees. That said, about 23 % of employees did not have a firm grasp of compound interest and 41% did not demonstrate understanding of the impact of inflation. Only 57% of participants correctly identified diversification as a way of reducing stock market risk. The theme of diversification is discussed in Chapter 4.3, and the additional findings presented in Chapter 4.3.1, specifically with reference to stock market risk, suggest that the financial products provided by the employer were having some impact on the interviewees' diversification strategies.

⁹⁶ The savings schemes offered discounted shares in the employing firm. A detailed explanation of these schemes is included in Appendix B

Q 17: Imagine that five children are given a gift of £1,000. If the children have to share the money equally, how much would each receive?

£150	0%
£200	98%
£250	1%
Don't Know	0%
Other	1%

The employees at the case study are relatively well-educated and financial literacy levels were significantly higher than the UK general population average.

Q 18: Now imagine that the children have to wait one year to receive their share of the £1,000 and inflation stays at 5%. When it is time to retrieve their money they will be able to buy ...

More with their share than they could buy today,	29%
Less with their share than they could buy today	59%
Don't know	8%
Other	4%

Q 19: Suppose you put £100 into savings account with a guaranteed interest rate of 2% a year. You don't make any further payments into this account and you don't withdraw any money. How much would be in the account at the end of the year after the interest payment is made?

More than £102	9%
£102,	86%
£100,	0%
£98,	0%
Don't know,	3%
Other	2%

Most of the *other* category made reference to taxation, implying high literacy

Q 20: How much would be in the account at the end of five years?

More than £110	78%
Exactly £110	11%
Less than £110	4%
Don't know	7%
Other	0%

Q 21: It is usually possible to reduce the risk of investing in the stock market by buying a wide range of stocks and shares.

True	57%
False	15%
Don't know	28%

Q 22: Most people have times in their lives when they find it difficult to make ends meet. How would you best describe your current financial status?

Keeping up with my bills and credit commitments without any difficulties.	50%
Keeping up with my bills and credit commitments but I struggle to do so from time to time.	32%
Keeping up with my bills and credit commitments but it is a constant struggle.	14%
Falling behind with some of my bills and credit commitments.	5%

Q. 23 What is your gender?

Male	61%
Female	39%

Q 24: What is your current employment status?

Full time	93%
Part-time	7%

Q 25: Please could you tell me your marital status?

Married/In Civil Partnership	49%
Living with partner	22%
Single	21%
Separated/divorced	7%

Q26: Do you have any children who are financially dependent on you?

Yes	41%
No	59%

Q.27: What is the highest educational level that you have attained?

Postgraduate degree or postgraduate professional qualification	9%
Degree/Professional qualification	27%
Higher, A level or equivalent	22%
HNC/HND or equivalent	18%
O Grade, Standard Grade or equivalent	18%
Other qualification	5%
Other	2%

Respondents were also asked for their age, salary, and location.

32% earned under £25,000

37% earned between £25,000 & £40,000

30% earned over £40,000

There is a considerable gender imbalance in the salaries at the case study with 42% of males earning over £40,000. The comparable figure for women was 11.2%. In the under 40 age group the comparable figures were 24% of males and 9% of females were earning above £40,000. This may have been partly explained by the nature of the work with many of the men being engaged in engineering type careers and many of the women employed in call centres. The gender imbalance was not investigated further as the topic was not raised in the interviews

11.2 Differences between Defaulters and Adherers

The survey gave some clues to the differences between the types of individuals who deviate from pension scheme defaults and those who adhere to them. The average employee who had deviated from the contribution defaults was older, wealthier, better educated, and more financially literate than the average employee. These findings replicate existing research findings that link higher pension savings to socio-economic status (Clery et al 2010). They were also more likely to be male, married with children, and to be better-paid. There was a link between length of service and contribution rates - the majority of those who had been employed for more than five years ⁹⁷ were contributing more than 3%. There was little difference between defaulting and non-defaulting respondents assumptions about how many colleagues contributed to the pension plan, although respondents who had deviated from the minimum default assumed higher contribution levels. There was a slightly higher likelihood of individuals who had deviated from the default having sought advice prior to joining the scheme and they were also likely to have sought advice from more

⁹⁷ I used the differential between employee and employer contributions as a proxy for long service

sources, in particular they were more likely to have asked colleagues for advice than any of the other groups. They attached greater importance to a pension from their current and previous employers, but slightly less importance to spouse's pension, state benefits, and income from savings. They were the group least likely to attach importance to property as a source of income although more likely to own property. However there was considerable variation across cases and many respondents who had deviated from the default did not fall into the higher earning bracket. 22%, of those who had deviated from the defaults were earning below average salaries, 12% were struggling financially. These findings appear to question the premise discussed in Chapter 3 that there is a linear relationship between income and pension contributions because of ease of affordability. The survey findings also question the associating between education, financial literacy, and default deviation. 15% of those who deviated had only Ordinary Level education,⁹⁸ and 28% had failed to answer at least one of the financial literacy questions correctly.

Amongst those who had opted out of the pension scheme altogether there appeared to be two distinct types of employee. Some were younger and had below-average income, education, and understanding of the company pension scheme. Affordability appeared to be an issue for this group - the questionnaire asked respondents to describe their current financial status and those employees who answered *it is a constant struggle keeping up with bills and commitments* were slightly less likely to be in the company pension scheme. The second type of opted-out employees was higher-paid well-educated individuals who indicated that they were saving through other means. They were slightly more likely than average to have been encouraged to save when growing up and to strongly agree that they had 'rainy day' savings. The motives for this type of individual not participating in the workplace pension scheme are raised in Chapters 4.4 and 5.1.

⁹⁸ Indicating that they had probably left school age sixteen

12 Appendix E - Details of the Interview Data Collection and Analysis

12.1 Conducting the interviews - practical issues

The original intention was to restrict interviews to participants based in central Scotland. This was for practical reasons in order to minimise the expense and time involved in traveling to interview participants. There is no indication in the existing automatic enrolment research literature that the location of the firm has an impact on default adherence and, given that existing theory does not consider employment location relevant, the restriction of research sites for practical reasons was not expected to impact on the research conclusions. However, given that interviews were being held in the workplace there might have been issues of participant confidentiality if all the interviewees came from one location. I therefore made the operational decision to widen the location of potential interview candidates to across the United Kingdom. In addition to reducing potential confidentiality issues this decision enabled access to a wider pool of potential research subjects. This latter point is of relevance because it allowed me to narrow the sample parameters and thus, by increasing homogeneity, increase the strength of the research design. Logistical and financial constrictions did come into play to some degree, and necessitated interviews being restricted to locations that were within a day's return train travel from Edinburgh and London.

Once the interview participants had been selected there were a number practical issues to consider. One disadvantage of face to face interviewing is that travelling to interviews can be both time consuming and expensive and adopting this approach meant that consideration had to be given to the location of interviews. Interviews took place in the participants 'workplaces. The relative merits of potential interview locations are not clear-cut: certain practitioners take the view that the convenience and safety of the interviewer should take precedence, whereas others argue that the subject matter should be the determining factor (Gubrium & Holstein 2001). The discussion of pensions is inexorably tied in with the subject of money and previous researchers in this area have encountered participant sensitivity and reluctance to discuss financial affairs (Thomas et al. 2009). It was a possibility that, given the discomfort some individuals experience discussing personal finance, participants would be more communicative in the familiar setting of home. However, there were considerable logistical advantages to holding all the interviews in the workplace. The interviewee participants were geographically dispersed and workplace based appointments would enable me to hold more than one interview in a day. I took the view that, firstly, by agreeing to be interviewed, the participants were, in effect, self-selecting and therefore likely to be more willing to discuss financial attitudes; and that; secondly, the subject matter was intrinsically linked to the workplace.

Additionally, workplace interviews provided some standardisation of the interview situation although the precise location of the interviews was shaped by the corporate culture of the employer. All interview participants were offered the choice of whether or not they wished to talk to in the privacy of a work-based meeting room or in a public space, and four elected for meeting rooms. The employer has a culture of holding meetings in staff canteens and this is where most of the interviews were conducted. The workplace of the participants based at Research Site 4 is close to a coffee shop that is habitually used for meetings and this is where three of the interviews were conducted. There was no discernible difference in the rapport established during the interviews based on the location, although the quality of sound recording from the more public spaces made transcribing some of the interviews difficult.

This research was conducted within the constraints set by external actors and circumstances. For example, because interviews were held during working hours the duration of the interviews was dictated by the terms of access agreed by the employer, and by participants' work demands. In order to minimise interruptions during working hours interview duration was set at one hour and most participants stuck to this timetable. Because some data had been pre-collected using the on-line survey questionnaire, little time was expended in the interviews themselves clarifying demographic details. A few interviews lasted considerably longer than an hour, but one interview was curtailed by an unanticipated interruption and the recorded conversation lasted only half an hour.

12.2 Organising the data - practical issues

Interviews were recorded and transcribed ⁹⁹ shortly afterwards, so that analysis could commence whilst data collection was ongoing. Glaser and Strauss (1967) argue that recording and transcribing are unnecessary, but I felt that such an approach relies too heavily on researcher memory and subjectivity and does not enable an adequate audit of the analysis process. No notes were taken during the interviews themselves. This is because note-taking can distract from the process of the interview and I felt that in view of the sensitive nature of the topic it was important to concentrate

⁹⁹ The quotations used in the presentation of results in Chapters 5-7 are taken from the transcripts but some editing of the text has been carried out to aid clarity. The participants used a variety of regional accents but the quotations predominantly use standardised English spelling - to do otherwise risked portraying the participants as inarticulate, and also would have made the quotations difficult to read, particularly as a few participants used Scottish vernacular. Using regional accents in quotations might also have provided clues to individual's identities.

on building up a rapport between interviewer and interviewee. Transcription is time consuming but researcher-led on-going transcription and analysis offered the advantage of improving familiarity with the data, encouraged detailed reflection, and enhanced subsequent interviews (Ezzy 2002). Transcribing is a skill that requires judgements to be made about the level of detail and the transcription of the interviews was driven at all times by the aims of the research project and the means of analysis. The first few interviews were transcribed in detail, including false start, repetitions ums and ahhs, but as this project does not use discourse analysis, I concluded that such detail was unnecessary, and in many cases clouded understanding of the content. The grammatical idiosyncrasies of the interviewees were recorded faithfully. Laughter and facial expressions that added to understanding of the data were included in square brackets as descriptions i.e. [laughs]. As an additional aid, the transcript files contain some contextual data such as respondents' age and gender. In one case the interviewee asked for some of her comments to be off the record and although these comments were transcribed care was taken to ensure that none of the comments were included in the final write up.

The interviews produced a considerable volume of data and so I used a qualitative computer programme to assist with the management of the text. Further to this, I enrolled on the University course 'Analysing Qualitative Data', in order to develop skills using NVivo. Organization of data and subsequent coding was facilitated using NVivo and the program for this is kept on a password protected PC. As noted previously, although the data for analysis largely consisted of interview transcripts some additional data had been collected. This included individual questionnaire responses, general data relating to the employer, observations on the working environment, and telephone conversations with interview participants. A file was established for each participant linking demographic details and responses to the questionnaire to the interview transcripts. This enabled demographic details for participants to be collated and cross referenced if required. Field notes were written up immediately after each interview and these were stored in a secure file in NVivo and linked to transcripts. The employer related data was collated into a separate source document for ease of consultation.

13 Appendix F - Consent & Information Forms

13.1 Survey information email

This email was forwarded to the email addresses of employees at the case study.

The University of Edinburgh is currently conducting research into saving for retirement.

You are invited to participate in a short on-line survey. The survey should take no more than ten minutes to complete.

To participate in the survey please click on the link.

The information that you provide will be analysed at the University of Edinburgh and it will be used as part of doctoral research into automatic enrolment in company pension schemes.

Please be assured that any personal details you provide will be treated in strict confidence. No one at [your company] will be able to identify you or your answers and no one will know whether or not you participated in the study. The views that you express will be kept anonymous.

Your participation is entirely voluntarily and you are free to decline to answer any particular question.

Thank you for helping with the research.

Kind regards

Lynne Robertson-Rose
Department of Social Policy
The University of Edinburgh
Lynne.Robertson-Rose @ed.ac.uk

13.2 Interview information sheet.

This information sheet accompanied the invitation to take part in the research.

RESEARCH PROJECT INTO RETIREMENT SAVINGS DECISIONS

Would you consider taking take part in this research?

I am a researcher at The University of Edinburgh undertaking research into automatic enrolment into company pension schemes. I would like to invite you to take part in the study.

Before you decide to take part, it is important that you understand why the research is being done and what it will involve.

What are the aims of the research?

The research aims to find out what motivates people to save for retirement. I want to examine the awareness, views and experiences of employees who have been enrolled into their employer's pension scheme. I also want to look at why some employees opt out of their employer's scheme whereas others choose to make additional voluntary contributions.

What will the research involve?

I would like to interview you about your experiences of your employer's retirement savings scheme. This will be an informal, one-to-one conversation and should not take more than an hour of your time. It will be held at a time and place convenient for you. I will ask you questions such as:

What has influenced your savings decisions?

What are your views on your company pension scheme?

How confident do you feel about making retirement savings?

How much do you know about the various ways of saving for retirement?

Don't worry if you don't currently contribute to the company pension scheme or don't feel very knowledgeable about pensions – your views are still very important to the research.

What if I don't want to answer some of your questions?

You do not need to answer any questions that you are not comfortable with. You can also change your mind at any time about taking part. It doesn't matter if it's before, during or after our discussion - all you have to do is let me know.

What will you do with the information?

With your permission, I will record our conversation and then write it up into what is called a transcript. This will allow me to read what you've said again. I will compare your views to those of other participants and look for common themes. My analysis will be written up as part of my doctoral thesis. I may also present my findings at conferences and publish them in academic journals. I would be happy to send you a copy of my findings once the project is complete.

Will the things I say be kept private?

When I create the transcript, I will change the names of yourself and everyone you mention. The original recording and transcript will be kept in a secure place at the university. Nothing in the written records will identify who you are. No one will know you have taken part in this research unless you tell them.

What is my employer's role in the research?

The research is part of my studies for a doctoral thesis (a PhD) and is under the supervision of the University of Edinburgh. Although it is being carried out with the co-operation of your employer, it was not instigated by them.

Will I get paid for participating?

I am sorry that I cannot pay you for participating.

Contact Information

I would be happy to answer any questions you have about the project and, of course, look forward to meeting you.

Lynne Robertson-Rose

Email Lynne. Robertson-Rose @ed.ac.uk

13.3 Interview consent form

This Consent form was given to all participants to sign prior to the interview. Participants retained a copy for information.

CONSENT FORM

Research into Retirement Savings Decisions

Name of Researcher

Lynne Robertson-Rose

If you are happy to be interviewed please complete and sign this consent form.

1. I have read and understood the information sheets and had any questions about the research answered to my satisfaction.
2. I give my consent to take part in an interview and understand that I can withdraw from the research at any time.
3. I give my consent for the interview session to be digitally recorded.

.....Date.....

Name of person participating in study (print name)

.....Date.....